

OCT 7 1997

AUDITOR
GENERAL
Alberta

Annual Report of the Auditor General of Alberta

1996 - 97

Mr. Paul Langevin, MLA
Chair
Standing Committee on Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1997, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

This is my third annual report to the Legislative Assembly and the nineteenth such report issued by the Auditor General of Alberta.

A handwritten signature in dark ink, reading 'Peter Valentine' in a cursive script.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
September 15, 1997

SECTION 1.....	1
Introductory Comments.....	1
SECTION 2.....	13
Executive Council	13
Advanced Education and Career Development.....	37
Agriculture, Food and Rural Development	61
Community Development	71
Economic Development	77
Education.....	83
Energy	91
Environmental Protection.....	97
Family and Social Services	105
Federal and Intergovernmental Affairs	115
Health	117
Justice	153
Labour	155
Legislative Assembly	163
Municipal Affairs	167
Public Works, Supply and Services	181
Science, Research and Information Technology	183
Transportation and Utilities.....	187
Treasury.....	195
Section 12(b) Audits.....	230
SECTION 3.....	231
Legislative Mandate	231
Mission	232
Reporting Process.....	234
Reservations in Audit Reports on Financial Statements	235
Other Information Included in Audit Reports on Financial Statements.....	236
Report under Section 18 of the Auditor General Act.....	236
Public Accounts.....	237
Accounting Principles and Auditing Standards	239
APPENDICES	241
Office Operations	241
Committees and Agents	261
Explanation of Some Financial Terminology	263
Staff	266
Status Report of Recommendations	267
Auditor General Act.....	279
INDEX OF ENTITIES.....	291



Digitized by the Internet Archive
in 2014

<http://archive.org/details/annrepalbaud1997>

Report For The Year Ended March 31, 1997

Purpose of Auditor General annual reports

The purpose of the Annual Report of the Auditor General is to report the work of the Office. The Office is funded to identify those instances in which systems and business practices can be improved. Our mission is to identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans. Our annual reports are designed to meet the expectation that we assist government and public agencies in improving their performance. Annual reports also serve to assist legislators in their work to hold the executive accountable for the management of public resources.

Scope of work

The scope and extent of audit work completed for 1996-97 and recommended improvements for the specific financial and management control systems examined by my Office are described in section 2 of this report.

For every financial statement audited, the Auditor General has issued an Auditor's Report. Section 3 contains information on those auditor's reports that contained reservations or reported a lack of compliance with legislation.

I am satisfied that those transactions and activities examined in financial statement audits performed by my Office complied, in all significant respects, with relevant legislative authorities, apart from the instances of non-compliance described in this report. However, I must caution readers that it would be inappropriate to draw a legislative compliance conclusion about matters not examined by my Office.

Recommendations

Recommendations are provided for the benefit of Public Accounts Committee members, ministers, other MLAs, the public, and management. When determining significance, I consider the nature and materiality of the matter relative to the individual entity and to the government as a whole.

This report contains 69 recommendations. Of these, the 28 recommendations that I consider particularly important and therefore warrant a formal government response are numbered. Of the 28 numbered recommendations, two are repeat recommendations.

Improving The Financial Administration Of The Province

The purpose of this introductory section of the report is to provide a summary of the numbered recommendations, and to identify for the Assembly some other matters of importance.

Last year, my summary identified eleven recommendations that I judged to be the most significant but, other than pointing to particular concern with the health sector, I did not categorize them. This year, I believe it will be useful to categorize all 28 of my numbered recommendations.

Highlights

To be successful, all those who use public resources should:

1. Set measurable goals, and responsibilities
2. Plan what needs to be done to achieve goals (including arranging contracted work)
3. Do the work and monitor progress (including managing contracted work)
4. Report on results
5. Evaluate results and provide feedback

These responsibilities, collectively an accountability framework, are met by using systems. The process that extracts the potential benefits of the accountability framework is governance.

The matrix that follows shows that the work of my Office has not identified problems with the first and last parts of the Province's accountability framework. Goal setting has become an integral part of the government's business planning; and at this time, generally, we have not endeavored to assess the extent and quality of the evaluations of results. I expect the state of reporting to improve considerably and thereby facilitate evaluation.

The analysis of our recommendations does, however, show that the government and its managers have much further to go in the areas of planning what needs to be done; doing the work; and on the conclusion of the work, reporting on results.

Planning what needs to be done to achieve goals (including arranging contracted work)

Fourteen of my numbered recommendations are designed to assist managers by having them focus on developing the processes they use to deliver outputs. This effort includes establishing the performance measures that will be used in reporting their results, as well as the performance measures that they will use in evaluating the performance of entities to which they have delegated work. The advice that I have provided to accompany Recommendation No. 3, relating to management of contracts by Ministries, makes the point that the fundamental elements of governance and accountability remain the same regardless of whether services are provided by government employees, a private sector contractor, or a delegated entity.

Doing the work and monitoring progress (including managing contracted work)

Twelve of my numbered recommendations have to do with day-to-day business practice; the conversion of plans into operating reality. They range from dealing with real risks to seizing opportunities to deliver services more efficiently. In many respects, these recommendations illustrate the need for highly skilled operational managers who are committed to obtaining the information needed to improve service delivery.

Reporting on results

Although only six of the numbered recommendations relate directly to improving reporting on results, they are critical. It is my job as Auditor General not only to add credibility to performance reporting, including financial reporting, but also to improve that reporting. This year, Alberta has yet again taken the lead in Canada by introducing ministry financial statements. The initiative demonstrates the government's commitment to serving the public's information needs and to

assisting decision makers in their public policy and budget deliberations. The government should be commended for this pioneering work. As I believe that ministry financial statements are such a critical part of the accountability framework, their credibility is imperative. For this reason, my audit process includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. As the government moves forward to implement the Government Accountability Act, I am recommending that its ministry financial statements communicate information that is useful in making decisions and assessing performance. I believe they must include all assets and liabilities, recognize the effect of transactions and events in the period they occur, and record all costs of service delivery activities. Likewise, to improve regional health authority performance reporting, I am recommending the inclusion in financial statements of measurements of key outputs and the cost of achieving them.

Analysis of numbered recommendations

Description of Categories:

Gov. Governance**2** Plan what needs to be done to achieve goals (including arranging contracted work)**3** Do the work and monitor progress (including managing contracted work)**4** Report on results

Rec. #		Category			
		Gov.	2	3	4
	Executive Council				
1	Information technology systems - Cost benefit analyses			x	
2	Year 2000 - Ministries at greatest risk			x	
3	Management of contracts by ministries		x	x	
4	Arranging accountability for use of public funds		x	x	
	Advanced Education and Career Development				
5	Institutional business plans		x		
6	Reporting capital requirements		x		
7	Performance measures for the Skills Development Program		x		
	Agriculture, Food and Rural Development				
8	Farm Income Disaster Program - Evaluation Criteria		x		
	Community Development				
9	Accountability of Volunteer Societies			x	
	Economic Development				
10	Renegotiation of the Alberta Tourism Partnership Agreement		x		
11	Lottery Fund accountability		x	x	
	Education				
12	Charter school planning and reporting		x		x
13	Credit Enrollment Units as basis for funding			x	
	Family and Social Services				
14	Responsibilities and Process for contracting		x		
	Health				
15	Accountability in the Health System		x		
16	Governance by Health Authorities	x			
17	Clinical Best Practice Guidelines			x	
18	Physician Funding and Payment systems		x	x	
19	Managing drug costs			x	
20	Reporting of performance by regional health authorities				x
21	Improving financial statement reporting				x
	Labour				
22	Monitoring the performance of delegated entities			x	
23	In-service Inspection Backlog - pressure equipment			x	
	Transportation and Utilities				
24	Transportation Infrastructure Mgmt. System -risks, costs & benefits		x		
	Treasury				
25	Basis of accounting for ministry & department financial statements				x
26	Basis of accounting for the Province's consolidated financial statements				x
27	Quarterly report				x
28	Investment Management Services		x		

Setting performance expectations and monitoring performance

Effective governance is essential to the successful performance of the Province's board-governed corporations, agencies, and authorities

In my 1995-96 annual report (page 6), I discussed my conviction that effective governance is essential to the successful performance of the Province's board-governed corporations, agencies and authorities. I stressed that individual board members can make a significant contribution by setting performance expectations for their organizations, and ensuring that the principal risks to achieving those expectations are formally identified and managed. I suggested that setting performance expectations is part of a continuum that includes the equally important functions of measuring and reporting on performance. Setting performance expectations should be a process that sorts out and harmonizes the different expectations of the various stakeholders, and clarifies the roles of everyone involved. In other words, it creates a performance contract between the main stakeholders.

During 1996-97, I was asked to investigate and report on CKUA

During 1996-97, I was asked to investigate and report on the difficulties that culminated in CKUA Radio ceasing to broadcast in March 1997. A summary of my CKUA Radio report can be found on page 33 of this report. During our work on the CKUA Radio report, we assessed the governance and accountability structures of the CKUA Radio Foundation by reference to the governance principles outlined above.

The CKUA privatization Agreement contained some elements of a performance contract which called for a strict separation of responsibilities between the Foundation's management and its Board

CKUA Radio was operated by the Province until August 1994 when it was privatized by transferring its operations and assets to the CKUA Radio Foundation. The privatization agreement between the government represented by the Alberta Educational Communications Corporation (ACCESS) and the Foundation included a Business Plan which contained some of the elements of a performance contract. For example, the Business Plan contained the performance expectations that ACCESS would provide the Foundation with funding totaling \$4.725 million over a three-year period, during which time the Foundation was expected to progress from being an operation dependent on government funding, to being financially self-sustaining. There were revenue targets and expenditure budgets to achieve the necessary transition to financial self-sufficiency. The Business Plan also prescribed a governance structure for the Foundation

which, very appropriately, called for a strict separation of responsibilities between the Foundation's management and its Board of Directors.

The Business Plan did not require the Foundation to report to ACCESS on compliance with the Plan

As a performance contract, the Business Plan was somewhat "bare-bones". The Foundation's performance expectations were largely "high level" and could usefully have been supplemented by lower level and periodic operational targets. The main drawback of the Business Plan as a performance contract, however, was that it did not require the Foundation to measure and report to ACCESS on compliance with the Plan and progress towards financial self-sufficiency. The results of this were a failure of governance within the Foundation, and a breakdown in external accountability to ACCESS.

The Foundation's Board could not hold management accountable because they were the same people

As explained in more detail elsewhere in this report, the Foundation's Board did not comply with the requirements of the Business Plan. For example, several Board Members assumed paid management positions, thereby preventing the necessary separation of responsibilities between the Board and management. Thus, when management failed to produce monthly operating statements, or to achieve operational or financial targets, the Board could not hold management accountable, because they were the same people. Similarly, the Board could not hold management accountable for identifying significant business risks, or developing strategies to manage them. Most importantly, however, the Board of ACCESS appears not to have recognized its responsibility to obtain from the Foundation the periodic information necessary to be satisfied that the public funding it was providing was being used to bring about the successful privatization of CKUA Radio.

To reiterate, the absence of an appropriate accountability structure within the Foundation, and the failure of ACCESS to require appropriate accountability reporting over a two and a half year period, allowed the situation at CKUA Radio to worsen to the point where closure was inevitable.

My CKUA report is a case study of a failure of accountability resulting in a waste of public funds

Unfortunately, my CKUA report is a case study of a failure of accountability resulting in a waste of public funds. The lesson for all involved in managing public resources is that an accountability framework is not a theoretical abstraction.

The Alberta Public Service

The Government of Alberta has made substantial inroads into reducing the Province's debt

The Government of Alberta has received much well-deserved acclaim for putting the Province's financial house in order. It has converted systemic annual deficits into surpluses, and made substantial inroads into reducing the Province's debt. While surging energy prices were undoubtedly fortuitous, reducing and controlling program expenditures contributed greatly, and have reduced the risk that falling energy prices will again upset the Province's balance sheet.

As the search for ways to make better use of public resources is becoming more difficult, the government needs highly skilled people

Some would argue that the task of reducing expenditures was not difficult, because there were many obvious inefficiencies in the delivery of public programs. Not only has the government dealt with the obvious, but it has carefully examined its significant activities with a view to achieving efficiencies in delivering government services. The search for ways to make better use of public resources is becoming, and will continue to become, more difficult as time goes on. Therefore, the government needs highly skilled people, regardless of whether services are delivered by government employees, other public sector employees, or the private sector. It needs people who can re-evaluate and refine its programs and manage program spending. The question is "Will these people be available?"

There is a growing risk of failing to recruit and retain skilled managers

A significant number of senior managers in the public service will become eligible to retire over the next five years. Many of the skilled members of the public service who would normally replace these people have left or are leaving. The government is in constant competition with the private sector and other jurisdictions to acquire and retain qualified staff. In my view, public service salaries are not competitive in a number of areas. An example is the much publicized case of crown prosecutors. Also, due to the long standing restrictions on salaries and the rules related to compensation, managers do not have the flexibility to reward an employee's superior contribution to achievement of results. In my opinion, these issues result in a significant and growing risk of failing to recruit and retain the managers and staff with the skills and enthusiasm to deliver cost-effective government services.

My staff are seeing growing evidence that the Alberta Public Service is under stress

My auditors interact daily with managers and staff at all levels of the public service. While evaluating the Province's management systems, we observe the skills and other qualities of the public servants who maintain these systems and use the information they generate. My staff continue to note that there are many skilled and dedicated people in public service. However, we are seeing growing evidence that the Alberta Public Service is under stress.

The most significant change demanded of the Public Service was in the way it does business

Salary restraint may be the most obvious part of the change that the government demanded of the public service. However, of more significance, was the demand to change the way the public service does business. It was asked to focus on and be accountable for achieving results. Business practices such as identifying outcomes, preparing and implementing plans, improving customer satisfaction and measuring and reporting on performance have become an everyday part of the workplace. And today, most public servants will not only acknowledge that the workplace has changed radically and permanently, but agree with the nature of this change.

With improvements in accountability, there is an opportunity to provide more flexibility to program managers with respect to compensation, including the authority to reward performance

There is improvement in accountability reporting. Information systems are providing more relevant information to policy makers. The original premise of much of the change was that authority to make decisions and take actions would be delegated to program managers. Policy makers would then use information from accountability systems to manage risks. With respect to human resources decisions, these could be made within policy frameworks by the managers closest to and directly accountable for cost and effects of program outputs. The change has occurred in a number of areas in human resource management. With improvements in accountability, such as salary disclosure, there is an opportunity to provide more flexibility to program managers with respect to compensation, including the authority to reward performance. In simple terms, I am talking about allowing managers to manage, and then holding them accountable for results.

I am deeply concerned that the circumstances described above have begun to impair the future effectiveness of the Alberta Public Service

I am deeply concerned that the circumstances described above have begun to impair the future effectiveness of the Alberta Public Service. In my view, prompt action is needed to make the Alberta Public Service attractive to ambitious and able young managers. There is a significant danger that, on university and college campuses and in many professions and vocations, the Alberta Public Service is no longer viewed by many as a desirable career option. It is also not surprising that as the Province's economy expands, and demand for jobs in the private sector increases, the public sector is losing many of its proven managers. We cannot afford to continue to lose a significant proportion of our best people.

The government must give its ministries more control over their day-to-day activities

If the government wants to achieve its stated intent of creating a public service "*that is respected for its attitudes, knowledge and skills, its effective management of public policy, and its dedication to achieving quality, affordable services for Albertans*" it must, in my opinion, give its ministries more control over their day-to-day activities.

General comments

Our primary purpose is to serve the Legislative Assembly and through its Members the Alberta public. It is essential, therefore, that we continue to maintain our independence from the entities that we audit. However, our ability to identify opportunities and propose solutions for the improved use of public resources relies on a close working relationship with the management and staff of the client entities subject to audit. We balance the needs of our clients and the Legislative Assembly by adhering strictly to our legislative mandate which we interpret to have placed great importance on adding value. Our ability to help our clients, and their desire to seek our advice, is of course a function of our skills, experience and expertise, and the accuracy, balance and relevance we bring to our work.

In many cases, our clients will ask for advice on a wide range of issues relating to their financial management. For example, our staff are making a major contribution to helping ministries make the transition from centralized general revenue fund reporting to separate departmental and ministry financial statements.

When requested by our clients to serve on task forces and other working groups, we make it clear that our role is that of advisor. It would be inappropriate for us to become a part of the management decision making process of a client entity. By providing advice at arm's length, we continue to preserve the objectivity necessary to permit us to perform the assessments expected of an independent auditor. That objectivity exists because the decisions we examine were made by others.

Acknowledgments

Pursuant to section 19(1)(b) of the Auditor General Act, I am pleased to report that in carrying out the work of my Office I received all the information, reports and explanations that were required.

My staff are encouraged to participate in frank discussions with the members of our client organizations. I continue to meet regularly with legislators, senior management members, and board members of client organizations. My staff and I continue to receive a high degree of cooperation from client personnel which supports my view that the services of my Office continue to make a substantial contribution to the improved use of public resources in Alberta. Without the cooperation of client staff at all levels, our contribution would be far less successful. The acceptance by the government of the recommendations made in previous reports is indicative of their value.

Without the extremely dedicated staff of professionals who make up the Office of the Auditor General, the scope of work described in this report could not have been achieved. The credit for the high quality of this report is properly due to them. I am pleased to acknowledge publicly their professionalism, talent, dedication, and hard work. Their contribution is not without certain sacrifice when compared to their professional accounting colleagues employed in other segments of the public sector or in the private sector.

To all who have contributed, I say thank you.



FCA
Auditor General

Edmonton, Alberta
September 5, 1997

Guidance to reader

During 1996-97, the Ministry of Executive Council consisted of:

- the Office of the Premier/General Administration,
- the Northern Alberta Development Council,
- the Personnel Administration Office,
- the Public Affairs Bureau, and
- the Office of the Chief Information Officer.

Its expenses for the year were approximately \$21 million.

The Executive Council is a committee of ministers, chaired by the Premier, which constitutes the government's executive leadership.

In this section, I will discuss issues which are designed to improve governance, including accountability, across the government.

Leadership requires good information

Governance is a process that brings together capable people and information to achieve objectives.

In its report on corporate governance, the Toronto Stock Exchange defined it as:

"Corporate governance means the process and structure used to direct and manage the business and affairs of corporations with the objective of enhancing shareholder value, which includes ensuring the financial viability of the business. The process and structure define the division of power and establish mechanisms for achieving accountability among shareholders, board of directors and management. The direction and management of the business should take into account the impact on other stakeholders such as employees, customers, suppliers and communities."

We believe the definition applies equally in the public sector.

Governance starts with setting out an understanding of why the organization exists, and where it is going. It includes hiring the right staff and establishing effective systems. It means providing direction, then allowing people to do their job, while conducting effective monitoring. Finally, the process ends with holding management accountable, and reporting to stakeholders on performance.

My comments are designed to use good governance to improve results

My main messages for the Executive Council are to:

- ensure that contracts and agreements are managed effectively,
- take action to ensure that all systems critical to the continued operation of the government will work past the year 2000, and
- obtain sound information on cost and benefits before implementing new systems.

Accountability framework

During the year, government professionals have made a number of major advances in the implementation of the Alberta Accountability Framework.

Accountability

In 1995, the Legislative Assembly passed the Government Accountability Act. The public service was thus challenged to improve the quality of information used, and provided, by government. In effect, to provide better information for governance.

Public Servants are meeting the challenge

The Alberta public service has resolved an impressive number of the many challenges involved in implementing the new accountability framework. Of particular significance during 1996-97 has been:

- The resolution of a great many of the issues leading to the preparation of financial statements by departments and ministries.

- The development of comprehensive guidelines for ministry annual reports. The final step in the accountability process is the provision of all necessary performance information. Under the new framework, this is done through the Ministry annual report. Application of these guidelines will greatly improve the quality of information in annual reports.

Many financial reporting issues have been resolved but there are issues under discussion

Both of these steps are necessary to meet the requirements of the Government Accountability Act which will come into force for the year ended March 31, 1998. The progress is testament to the hard work and commitment of many people. Under the leadership of the Treasury Department, financial, budgeting and communications professionals from each ministry have resolved hundreds of accounting and financial reporting issues. Under the heading Ministry and Department financial statements, I discuss below why I issued reservations of opinion in my auditor's reports on these financial statements.

Auditing performance measures

With the co-operation of the Treasury Department and the ministries involved, I was able to meet the objective of reporting on the application of certain specified auditing procedures to the performance measures contained in ministries' 1996-97 annual reports.

My staff is working with the Treasury Department on the steps necessary to be able to provide a full audit opinion on the core measures included in the government's 1998-99 *Measuring Up* report.

Organizations are using performance measures

I have also noted with satisfaction that an increasing number of ministries are integrating their performance measurement reporting into their day-to-day management procedures. One initiative, in this regard, is discussed in the Department of Environmental Protection section of this report.

Ministry Annual Reports

In my 1995-96 annual report, I suggested criteria for the preparation of appropriately informative annual reporting by ministries. I am pleased to observe that many ministries have been applying these criteria when producing their 1996-97 annual reports.

Ministry and Department Financial Statements

The issue is whether the Ministry and Department financial statements made public for the first time are complete

The purpose of this section is to explain why I have issued reservations of opinion in my first auditor's reports on Ministry and Department financial statements. The decision was based on my assessment of the accounting principles used, and where certain assets, liabilities, revenues and expenses are recorded. In fact, I am reporting that the financial statements are incomplete. I am not reporting that assets are missing or that unwarranted expenses have been incurred. I have no desire to be seen as unnecessarily obstructing what I believe to be an important advancement of accountability reporting.

I favour the accrual basis of accounting because it demands completeness

The accounting standard I use to assess whether financial statements are misleading is termed the accrual basis of accounting. The word 'accrual' implies complete—that is including all assets and liabilities, recognizing the effect of transactions and events in the period they occur and recording all costs of service delivery activities. I favour the accrual basis of accounting because the completeness that it demands achieves the goal of communicating information useful in making resource allocation decisions and assessing performance.

To allow Ministries to prepare more complete financial statements, accounting policies have to be changed

In my discussions with Ministry staff, I have pointed out the areas in which I believe their financial statements are incomplete. I have argued that if they are to manage all the resources at their disposal and all the activities that give rise to obligations, and if they are to know the full cost of their programs, the accrual basis of accounting will serve them best. However, the Senior Financial Officers of Ministries are obliged, quite appropriately, to comply with accounting policies prescribed by the Treasury Department. These policies are not yet fully developed and therefore there are significant departures from the accrual basis of accounting, also known as the application of generally accepted accounting principles. Recommendation No. 25 addressed to the Treasury Department is designed to accelerate changes to the government's accounting policies and reporting practices that would allow Ministries to prepare more complete financial statements.

I have not deemed it necessary to provide details in this annual report of each reserved auditor's report that I have issued. It will be helpful, though, if I summarize the matters that caused those reservations of opinion.

Certain employee-related liabilities, and associated costs, have not been included in the appropriate Ministry financial statements

Accrued vacation pay, long-term disability benefit entitlements and pension obligations arising in each Department's capacity as employer have not been included as liabilities in Ministry financial statements. These departmental obligations remain on the balance sheet of the Treasury Department. The effect of the omission of liabilities from Ministry financial statements is to misstate operating costs with the attendant risk of misleading decision making. The most significant omission within a Ministry is with respect to the Province's obligation to the Teachers' Pension Plan, in the amount of \$3.7 billion. This liability and the attendant carrying costs have been included in the financial statements of the Treasury Ministry rather than in those of the Ministry of Education.

Certain program costs have not been allocated to the Departments that incurred them

Accommodation and certain other administration costs incurred in the operation of Departments have not been included in expenses since these costs are recorded by the Departments that paid the expenses on behalf of others. If direct costs are excluded from the cost of operations, the results can be misleading and inappropriate decisions may be made.

The cost of consuming assets may be allocated to the wrong period

The government uses a uniform threshold across all Departments for capitalizing asset acquisitions. In my view, an appropriate threshold should be determined by each Department so that its expenses properly reflect the costs of its programs. Without a threshold appropriate to the size of a Department, the costs of programs can be materially inflated in the year of acquisition of assets and then inappropriately reduced in the years of consumption of those assets. In addition, a more comprehensive definition of capital assets would assist in clarifying the difference between capital assets and operating expenses.

The benefits of ministerial reporting will not be realized if Ministry financial statements do not include organizations that are accountable to the Minister and are, in my opinion, controlled by the Ministry

Certain Ministries (Health, Advanced Education, Education and Labour) have not consolidated, that is have not included, in their financial statements the assets, liabilities, revenues and expenses of entities that are accountable to the Minister and are, in my opinion, controlled by the Ministry. As the primary objective of ministerial financial statements is to provide an accounting of the full nature and extent of the financial affairs and public resources for which a Minister is responsible, the accounting should be complete. It is important to note that a Minister does not need to manage an organization's activities day by day to exercise control and that consolidated reporting does not affect the operating autonomy and accountability of a controlled organization. Consolidated reporting will, however, help to improve ministerial performance reporting. In summary, consolidation should not change a relationship; rather consolidation assists in understanding the authority that permits the relationship. Consolidation accounting is an integral part of accrual accounting—it is about recognizing potential benefits and obligations from past transactions or events. Without complete aggregated information on ministerial results, public policy and budget decision makers run the risk of making inappropriate resource allocations and incorrect assessments of stewardship. The real benefits of ministerial reporting will not be realized.

The Province has better information than last year but there are unresolved reporting issues

In conclusion, I believe that the reporting issues that I have raised can be resolved. Some matters can and will be dealt with soon. The issue with respect to the completeness of the ministerial reporting entity will not be resolved without further discussion and debate. My responsibility as Auditor General is to provoke debate on matters within my mandate. Although I have been critical, I do congratulate the Treasury Department and Senior Financial Officers on the progress made. No other jurisdiction in Canada has ministerial financial statements. The Province has better information than last year when only the General Revenue Fund financial statements were available to explain departmental operations.

Cost Benefit Analysis of Information Technology Projects

Background

Information technology improvements are implemented to provide better information for governing bodies and management and/or to allow more cost effective delivery of services. The government has recognized these potential benefits for policy management and program delivery.

Approximately \$160 million is spent each year on information technology

For this reason, it spends approximately \$160 million each year on information technology, a large part of which is spent on projects to acquire and/or develop new systems and technologies. However, the full benefits from these expenditures will not be realized if the projects have cost overruns, implementation delays, or fail to meet expectations.

The CIO Council requires executive level involvement to be successful

In 1995, the Premier established the Office of the Chief Information Officer (OCIO). Its role is to improve the government-wide coordination and management of information technology, and the sharing of information and best practices. To further these objectives, the OCIO's business plan includes goals for coordinating the development of government-wide strategies for information technology, and incorporating standards, guidelines, and practices for information technology resources. The OCIO has established a CIO Council to assist with the necessary coordination. Each Ministry has been asked to appoint an executive level representative to the Council to ensure that the guidance developed by the Council is followed across government.

Information technology systems - cost benefit analyses

A cost benefit analysis was not planned or completed for a number of new systems

Recommendation No. 1

It is recommended that the Office of the Chief Information Officer provide guidance to assist Ministries in conducting cost benefit analyses for information technology system acquisition and development projects. It is further recommended that Deputy Ministers act to ensure that their Ministries follow this guidance.

A cost benefit analysis was not planned or completed for a number of the information technology systems acquired or developed by the Province in recent years. For example:

- In my 1994-95 annual report, I noted that the Department of Energy had not benefited appropriately from the technological upgrade of its Mineral Revenue Information System (MRIS). The upgrade, which cost approximately \$37 million and was implemented in May 1997, was intended to simplify the collection of royalty revenues. Only now has the Department begun to analyze the impact of the project and to assess the effectiveness of the simplification measures. This analysis should have occurred earlier in the project to guide the project during development.
- Implementation of the first modules of the new IMAGIS system began in July 1997. IMAGIS is a suite of financial and human resource applications for government-wide use that is expected to cost approximately \$24.5 million. Despite the cost and expected impact of the system, cost-benefit expectations were not identified before proceeding with its acquisition. I have informed the Project Team that I believe there is still merit in identifying the potential benefits of the project and monitoring the realization of those benefits, even though implementation of the system has begun.
- A cost-benefit analysis of the Infrastructure Management System to be implemented by the Department of Transportation and Utilities, has not been completed. The system, which is expected to cost approximately \$10 million, will be used to aid in decision-making related to the construction and maintenance of roads and bridges.
- A project to implement a new system to administer and evaluate commercial loans for Alberta Treasury Branches did not use business requirements and benefits to evaluate the software that was being developed. As a result, this project has not produced the results anticipated.

Cost and benefits need to be defined

For the above and other system development projects reviewed by my staff, there was a lack of rigor in identifying the benefits to be derived from the proposed systems. In my view, regardless of whether the system is being purchased, developed or converted to a more advanced technology, management should predefine cost benefits that are expected to be derived from the project.

Even where there is no early definition of benefits, I believe that a cost-benefit analysis while the project is underway can help to ensure that benefits are maximized.

Defining costs and benefits helps manage risks.

For the following reasons, defining costs and benefits before proceeding with systems development projects can help management mitigate risks:

- There can be increased assurance that the decision to proceed with the project is based on a sound business case. Too often, there is too much focus in system development projects on the cost and nature of the technology, and not enough on understanding the impact on the business, or the cost of staff training and implementation disruptions.
- There can be increased assurance that all affected management and staff have a clear understanding of what the project is expected to achieve. New systems often result in significant changes to the way an organization operates. If managers and staff have a clear understanding of the expected changes and benefits, they are more likely to accept the changes and make the changes management wants.
- When changes to the original scope or requirements of the project are proposed, decisions can be made based on the estimated impact of those changes on the original costs and benefits.
- The new system's implementation strategy can be based on the cost and benefits. For example, if the system is to be implemented in modules, the modules with the greatest operational or cost-benefits can be given priority for earlier implementation.

A cost benefit analysis should contain certain key information.

- Once the system is implemented, the system can be benchmarked against the costs and benefits originally defined. Variances can be identified and either explained or, where benefits have not been realized, corrective action taken.

Cost-benefit projections and post-implementation cost-benefit analyses should provide management with a comprehensive understanding of the expected and resultant cost and operational impacts of acquiring and implementing the new system. As a minimum, these should include:

- tangible costs, such as hardware and software acquisition costs, development costs, staff training and orientation costs, facility costs, and operating and maintenance costs,
- tangible benefits, such as reduced manpower and other direct operating costs, reduced maintenance costs for information technology, improved throughput times, and increased production capacities, and
- intangible costs and benefits, even though these may be difficult or impossible to cost or to measure in other ways. Intangible costs, such as lost productivity while staff become familiar with the new system, should also be considered. Intangible benefits may include improved control and security over information or improved availability or accuracy of management and operating information.

Costs and benefits should be defined as recurring and non-recurring, allocated by year, and discounted to their net present value to show the net benefit for each year and the system's pay-back period.

Guidance will help, but it must be followed up to be useful

I believe that providing guidance to ministries for the planning, monitoring, and subsequent assessment of costs and benefits can improve the management of the Province's information technology resources and expenditures. The CIO Council is positioned to co-ordinate the development and implementation of this guidance. However, each individual Ministry must then consistently apply this guidance for the benefits to be realized.

IMAGIS Project

Background

The implementation of the PeopleSoft financial and human resource software modules, now called the IMAGIS project, began in 1997. The accounts payable and general ledger modules were implemented in all Ministries in July 1997. The seven remaining financial modules are planned for implementation in stages to July 1999. The human resource modules will be implemented in stages to April 1999. Currently, the estimated cost of the IMAGIS project is \$24.5 million. This cost comprises \$5 million for software and \$19.5 million for implementation and consultants.

*Action has been taken on
my recommendation*

In my 1995-96 Annual Report (page 32), I recommended that the Project Steering Committee restructure the PeopleSoft Project with the objective of enhancing coordination and integration. Since that time, the Committee introduced a Cross Government Project Management Team lead by a Project Coordinator and supported by representatives from each ministry. This has improved the integration and coordination between the Financial, Human Resource, and Technical Teams.

*I previously reported that
costs and benefits of the
system had to be identified*

In my 1995-96 Annual Report (page 35), I noted that no formal cost/benefit projections had been prepared for the system prior to purchasing the software. Also, there were no comprehensive estimates of the cost of implementing the system, nor details of the objectives and benefits the system was expected to contribute.

*Steps should be taken to
ensure those benefits
already identified are
realized*

Since then, the IMAGIS Project Team has identified, in general terms, some of the benefits expected from introducing the new software. For example, one expected benefit is that the new system will replace many existing stand-alone systems. Another expected benefit is that the new system will meet the new financial reporting requirements of all ministries.

During future audits of departments, my staff will monitor the benefits derived from the new software to ensure the benefits anticipated by the central project team are being realized.

Year 2000

Background

In my 1995-96 annual report (page 29), I recommended that the Office of the Chief Information Officer (OCIO) evaluate ministerial plans and monitor progress towards ensuring that the government's information technology is year 2000 compliant. This recommendation stemmed from a concern that some of the government's major computer systems may be unable to handle the changeover from 1999 to 2000. The OCIO has since established the CIO Council with responsibility for disseminating information and common approaches to information technology issues across government.

*Action taken on
implementing my
recommendation*

Through the CIO Council, the OCIO has established a year 2000 Coordinators Committee with members from each ministry. It has also formed a year 2000 Advisory Committee, and put in place a year 2000 Project Team with staff from the Department of Public Works, Supply and Services.

Year 2000 - Ministries at
greatest risk

Recommendation No. 2

It is recommended that the Office of the Chief Information Officer identify those ministries that are at greatest risk because their computer systems are not year 2000 compliant, and work with them to mitigate the risk of their business operations being adversely affected.

*My staff reviewed action
taken to date*

During 1996-97, my staff continued to review the plans of government departments, agencies and regional health authorities to address their year 2000 risks. This work is focusing on the plans, and action taken to date, to ensure that application systems, hardware, and software will not fail and disrupt operations. My Office is reviewing these plans and budgets to assess whether the resources committed appear adequate, and whether the timelines are reasonable.

The situation is improving since most organizations have a better understanding

There now appears to be an increased awareness of the risks than when we completed our original assessment in 1995-96. Most organizations have begun work on the problem, and virtually all have begun assessing what needs to be done. Some have addressed all areas of risk through comprehensive plans and strategies, while others have used less formal processes, depending on the significance of the risk or the complexity of their information technology environment.

Some organizations have started to make changes, but for others, time is running out

Most organizations have started to modify their most critical application systems, though some have yet to address all their potential hardware, operating system, and software risks. Many projects to address year 2000 issues are just getting underway, some with significant resource requirements and tight deadlines which, if not achieved, could result in business processes being adversely impacted. Also, for those systems critical to the government's operation, the use of a certification process will help ensure that they are, in fact, year 2000 compliant.

Cost is estimated at \$56 million

Initially, the CIO's Project Team compiled an inventory of government application systems that were likely not year 2000 compliant. About 146 of these systems were deemed critical to achieving ministries' missions, and it was estimated that \$40 million to \$56 million would be needed to make them year 2000 compliant. Since that time, the Project Team has asked ministries to provide detailed plans and budgets for the work needed to make their systems year 2000 compliant.

Some ministries have not provided information on their readiness

Some ministries have not provided this information, either because they are late with their planning, or because they see limited value in complying with the requirements of the Project Team. In June 1997, the Project Team contracted a consultant to independently assess the status of each ministry's year 2000 plans. Although the consultant's work is incomplete at this time, preliminary indications are that it will confirm the status to be as described above.

*OCIO needs to identify
and help those at risk*

In conclusion, the work done by my staff this year suggests that the operations of some ministries are still at risk of being negatively affected by the year 2000 change. The OCIO and its committees need to continue to monitor and assist those ministries at greatest risk, and ensure that senior management of those ministries understand fully the risks associated with the year 2000 change.

Contract Management

Background

*An increasing proportion
of public services are
being provided on a
contract basis*

In an effort to reduce costs, increase focus on core business areas, utilize the expertise of outside specialists and share the responsibility for investment in infrastructure, government ministries are increasingly contracting for provision of services formerly provided by agencies within the public sector. Major contracts entered into in the last three years include highway maintenance, the information technology services of several large ministries, and delivery of various programs in areas such as Economic Development and Advanced Education.

*Technical expertise
exists, but contracting
skills need to be
developed*

During the last few years, my Office has reviewed many different contracts in various government organizations. While in most instances we have found that organizations may possess technical expertise in the specific service to be contracted, we have also identified a general lack of knowledge and resources in the disciplines of contract negotiation and contract management. The frequency of contracts is increasing. I believe now is an appropriate time for ministries to improve contracting processes from a government-wide perspective.

Management of contracts by Ministries

Recommendation No. 3

It is recommended that ministries ensure that their contract negotiation and management practices result in cost-effective public services. It is also recommended that responsibility be assigned for the establishment of a process to determine and implement best practices in contracting.

The following discussion covers some of the key issues involved in the decision to contract, contract negotiation and contract management. The discussion focuses on the major risks associated with contracting and suggests criteria by which effective management of these risks can be assessed.

The decision to contract

The cost-effectiveness of contracting should be determined at the outset

There is a risk that contracting will not be a cost-effective replacement for in-house provision of services. As a prerequisite to contracting, existing performance levels must be clearly defined to permit analysis of the costs and benefits and to serve as a benchmark for contracted performance standards. The full costs of each alternative should be properly identified and analyzed, including the effects on costs of other departments, other levels of government, and the public. Costs should be defined as one-time or recurring, and appropriately discounted to reflect net present value. For example, the difficulties encountered by the Michener Centre in contracting for laundry services, described in the Family and Social Services section of this annual report, arose largely from errors in costing on-site versus off-site services.

Benefits must be defined to establish targets for contract results

Benefits must also be clearly defined and assessed in relation to costs. Identifying anticipated benefits is also necessary to ensure opportunities for service improvement are incorporated in the contracting plan and meaningful targets are set for contract results. A more detailed discussion of the analysis of benefits, relating to information technology projects in particular, appears earlier in this section.

Contracting should attempt to realize benefits from competition between potential vendors

A primary advantage of contracting arises from the introduction of competition into the provision of publicly funded services. Competition may result in cost savings, but may also provide technical expertise, innovation, and/or capital resources which may not exist internally. There is a risk that competition may be limited. The contract may be of such magnitude that very few vendors, perhaps only one, are capable of providing the service (i.e. contracting may become sole-sourcing). This may already be occurring in cases where the entire information technology services of major departments are outsourced under a single contract. There are only two vendors in Alberta capable of fulfilling some of these contracts.

Strategies exist to effectively increase selection and competition

Even where multiple vendors are available when the initial contract is signed, the relationship may become so intimate as to effectively tie the organization to the contractor for subsequent renewals. Strategies to minimize the risk of reduced competition include “un-bundling” or breaking the service into smaller components to increase the number of potential vendors. The advantages of un-bundling must be weighed against the administrative resources required to deal with multiple contractors. Also, an exit plan should be established to facilitate succession or repatriation of services when contract terms expire.

The contract selection and negotiation process

The method of selecting a contractor should be appropriate for the service to be outsourced

There is a risk that the method chosen will not be appropriate for the type of service to be outsourced. There are three main methods of selecting a contractor:

- A tender is a method whereby the desired service and method of delivery are specified to potential contractors and selection is based solely on price. This is best suited to standardized supplies or services.
- A request for proposal (RFP) is a method whereby the desired result is described in general terms and the expertise and creativity of vendors is sought to achieve a cost effective method of delivery. Because vendors may propose different approaches, selection is typically based on various factors in addition to price.
- Common purpose procurement (CPP) and strategic alliances are derivations of the RFP method whereby the contractor is intimately involved in, and in some cases may actually lead, the development of new initiatives and supporting systems.

A RFP or CPP process, although generally more complicated in terms of needs definition and proposal evaluation, is generally better suited to more complex projects or services where innovation is a prime consideration.

Contracting presents legal issues which must be addressed

There is a risk that the contracting organization may not have the authority to enter into the contract or may not be in compliance with governing legislation or agreements. For example, the organization should be aware of the implications of the Internal Trade Agreement, whereby

Alberta has agreed to a framework to ensure equal access to government procurement for all Canadian suppliers. Legal counsel should be engaged to mitigate this risk.

The contracting process must be fair and must avoid conflicts of interest

The contracting process should be free from bias. There is a risk that the contracting process may not be fair or may not be seen to be fair. Recognized contracting practices should be followed in matters such as advertising the tender or RFP, security over bids or proposals received, and contractor selection. Appropriate practices have been described in the 1996 report of the Premier's Task Force on Construction Contracts. There should also be well-established conflict of interest guidelines to guide the process. The guidelines should define related parties and the types of transactions most likely to lead to a conflict of interest, including employment opportunities with potential contractors.

The contract should protect government assets and manage the government's exposure to liability

The contract must adequately protect the interests of the government. There is a risk that public assets may be jeopardized and/or the government may be exposed to liability if the contractor fails to perform. For example, negligence in dealing with sensitive information or providing an essential service could expose the government to significant legal liability to third parties. Comprehensive assessment of potential liabilities is required to ensure these risks are adequately covered through bonding, insurance, and indemnification provisions in the contract. An adequate emergency plan should be in place to deal with interruptions in service. The government's proprietary rights to products and applications developed under the contract should also be protected.

The contract should link compensation to results, with mechanisms to improve poor performance

The organization must have a clear vision of what it expects the contractor to deliver. There is a risk that the contract may fail to clearly define the services to be provided or results to be achieved. The contract should set out the roles and responsibilities of the parties, including measurable performance standards and timeframes. For large projects, intermediate deliverables indicating the project is on track should be specified. Where possible, the contract should link compensation to results, including providing appropriate incentives for superior performance and cost savings, as well as penalties for poor

performance. The contract should specify who is responsible for cost overruns and should contain an effective dispute resolution process to prevent negotiable differences from threatening the contracting relationship. The contract should also provide for timely termination in the event of critical failure to perform.

The contract should establish the framework for contract management

The contract should establish a sound framework for contract management and accountability. There is a risk that unless these provisions are built into the contract, they will become difficult or costly to add later. The contract should establish contractor reporting requirements and the rights of the government to inspect and obtain independent review of the contractor's performance. The contract should also ensure the contractor maintains records in a manner which facilitates contract supervision and audit verification. For example, our review of the Alberta Tourism Partnership Agreement, described in the Economic Development section of this annual report, found several areas where the accountability framework embodied in the contract could be improved.

Contract monitoring

The fundamental principles of accountability apply to contract management

The fundamental elements of governance and accountability remain the same regardless of whether services are provided by government employees, a private sector contractor, or a delegated administrative entity such as a non-profit foundation. These elements consist of defining the roles and responsibilities of the parties, agreement of measurable expectations to be achieved for funding provided, effective monitoring and reporting of actual performance in relation to expectations, and analysis and subsequent refinement based on results.

Performance is monitored through contractor reporting, inspection, and independent review

Monitoring of contract performance occurs in three basic ways:

- Reporting by the contractor. In the planning phase, the contractor should provide a plan indicating the results to be achieved and at what cost. In the execution phase, the contractor should report on progress and costs incurred. In the review phase, the contractor should be asked for methods to improve services in the next cycle.
- Inspection by the contracting organization. Depending on the nature of the service, periodic on-site examination may be useful in verifying contractor performance. There may be opportunities for ministries to cooperate in this area. For example, technical expertise is required to monitor computing contracts, but it may not be practical for every department to have a full time employee in this capacity. In such cases, the services of one resource person could be shared among departments with similar needs.
- Independent review. This can take several forms, including auditing the contractor's records and periodically asking clients to rate the contractor's performance.

An example of failure to monitor results achieved prior to approving contract payments is discussed in our review of the Integrated Training Pilot Program, described in the Advanced Education and Career Development section of this annual report.

Sufficient resources must be committed to ensure a rigorous contract review process

There is a risk that the accountability framework, however sound in concept, will fail to achieve optimal results unless sufficient and appropriate resources are dedicated to a rigorous contract management process. Contract performance must be monitored, results must be analyzed, and corrective action must be taken on a timely basis. A notable instance of weaknesses in the management of a contract is described in the report on our work on the CKUA Foundation, later in this section of the annual report.

Resources must be adequate to evaluate proposals from "strategic alliance" contractors

It is particularly important for the contracting organization to maintain, or have access to, sufficient technical expertise in the case of "strategic alliance" type contracts. Without adequate in-house expertise, there is a risk that the organization will not be able to evaluate the feasibility of a contractor's proposal and assess whether it represents the most cost-effective solution.

Conclusion

While outsourcing offers significant potential benefits, it also presents significant risks. I believe a coordinated process, utilizing the expertise and resources currently within certain departments and agencies, can help Ministries to identify and manage these risks.

PWSS is an example of an organization with contracting expertise

The Department of Public Works, Supply and Services (PWSS) is an example of an organization with contracting expertise. Under the Government Organization Act, PWSS has responsibility for the acquisition and provision of all supplies required by departments for the transaction of their business and affairs. As such, the Department is intimately involved in the contracting process and is a signatory to the final contract. This responsibility does not specifically extend to the acquisition and provision of services, although PWSS has provided assistance to other departments and agencies in this area.

Other centres of contracting expertise exist within the government

There are also other centres of contracting expertise in the government. However, there is currently no mechanism to ensure this expertise is available to all government departments and agencies. As each organization attempts to develop its own expertise, there is potential for inefficiency and increased risk that sufficient skills may not be applied in the contracting process. I believe responsibility should be assigned to develop and implement a process to promote best practice and create a central forum for the discussion of contracting issues and experiences. This process could also involve distribution of guidelines, as well as training programs on various aspects of contracting.

Sound business practices must be followed

In this discussion, I have referred to instances of deficiencies in contract management described in this and previous annual reports. These situations resulted in loss of money, failure to achieve objectives, and/or loss of confidence in the government. I have discussed appropriate contracting

business practices and noted that contracting expertise exists in certain centres within the government. In summary, I believe this expertise should be made available to all government organizations and that sound practices should be established and followed.

CKUA Radio Foundation

In April 1997, I issued a report to the Deputy Minister of Municipal Affairs following an examination of the financial affairs, and other matters, related to the CKUA Radio Foundation. In this section, I provide a summary of my findings. A detailed discussion can be found on page 168.

Background

CKUA Radio had been broadcasting in Alberta since 1927. Originally the radio station of The University of Alberta, it was later operated by the Provincially owned Alberta Educational Communications Corporation (ACCESS). Then in August 1994, ACCESS transferred the assets and operations of CKUA Radio to a privately operated foundation called the CKUA Radio Foundation (the Foundation). The transfer was pursuant to an Asset Purchase and Sale Agreement (Sale Agreement) between ACCESS and the Foundation. The Sale Agreement provided for the Foundation to receive grants totaling \$4.725 million over a three-year period to be used in accordance with an approved business plan (Business Plan) to transform CKUA Radio into a financially self-sustaining public broadcaster.

In March 1997, however, CKUA Radio ceased broadcasting, citing financial difficulties. In the same month, the Minister of Municipal Affairs asked the Auditor General to investigate and report on the financial affairs and other matters related to the difficulties experienced by the Foundation. As I am not the auditor of the Foundation, the investigation was performed under authority contained in the Sale Agreement.

The Minister of Municipal Affairs released my report on CKUA Radio to the public in May 1997, following which its contents and conclusions received considerable media coverage. For this reason, my comments herein on CKUA Radio are limited to a summary of the most significant observations and conclusions contained in my report to the Deputy Minister.

The following recommendation, though originally addressed to the Department of Municipal Affairs, is intended to apply to any government organization faced with privatizing or outsourcing.

Arranging accountability for use of public funds

Recommendation No. 4

It is recommended that when grant funds and/or assets are provided to an organization or individual in return for an expected level of performance, an appropriate accountability framework be established to enable the recipient's performance to be measured and evaluated.

Overall conclusions

In simple terms, CKUA Radio ceased broadcasting in March 1997 because it was running out of money. The Foundation's revenues had been consistently less than expected, and its expenditures were higher than budgeted for in the Business Plan. What is more revealing, however, is how this happened and why ACCESS and the Department of Municipal Affairs were largely unaware of the Foundation's difficulties until they became critical.

The Business Plan, which was part of the Sale Agreement, provided a strategy by which the Foundation was supposed to progress from an operation dependent on government funding, to a financially viable self-sustaining operation. It contained budgets for revenues and expenditures, supported by plans containing operational objectives and strategies, a management structure and staffing complements. It is unclear, however, whether the revenue targets contained in the Business Plan were realistic. As events transpired, actual revenues fell far short of those targets. Unfortunately, the Foundation's efforts to address these revenue shortfalls were largely unsuccessful, and eventually, its resources were so depleted that cessation of operations was inevitable.

ACCESS, and later the Department of Municipal Affairs (which assumed ACCESS's rights and obligations under the Sale Agreement when ACCESS was wound-up in July 1996), did little to help the situation. In part, this was probably because both lacked in-depth knowledge of the Foundation's situation. This, in turn, was because the accountability information obtained from the Foundation since August 1994 had been minimal.

Even if ACCESS or the Department had pressed the Foundation for financial and other operating information, it is doubtful if it could have been provided. This was because the Foundation's financial records were generally poor and not conducive to the provision of timely financial information. This meant that much of the information the Foundation's Board and management would have needed to manage the Foundation's affairs effectively, was usually unavailable or late. The audited financial statements for the first thirteen months to August 31, 1995 were not presented to the Board until February 18, 1997. Monthly operating statements were not produced until June 1996, and even then, were of limited value because financial budgets were not integrated into an overall operational plan.

In conclusion, I believe that failure to measure and report results promptly, to match results against a comprehensive plan, and to take corrective action when needed, severely limited the Foundation's ability to administer its affairs successfully. I believe also that some of the Foundation's problems could have been avoided, or at least mitigated, by a proper governance structure with appropriate separation of duties between the Board and management. My advice to the Foundation's new Board of Directors is to develop realistic revenue targets for the future, and to determine whether CKUA Radio can operate within the necessary cost constraints.

The failure of the Foundation to plan properly and to provide evidence of results had implications for ACCESS, which provided \$4.725 million in cash and \$1.125 million in capital assets to the Foundation. In such circumstances, even though the Sale Agreement was virtually silent on the need to provide accountability information, ACCESS (and later the Department) should have required the Foundation to provide frequent accountability reports. As a minimum, such reports should have contained the information needed to enable

ACCESS to monitor the Foundation's progress towards the goals set out in the Business Plan.

I acknowledge that, as required by an April 1995 amendment to the Sale Agreement, the Foundation sent ACCESS a report in October 1995 on the status and viability of the Foundation's operations. The report, however, was superficial and unsupported. Furthermore, the report was received by ACCESS six months after it had paid the Foundation the final \$2.025 million of grant monies to cover the second and third years of the funding period. In my view, the failure of ACCESS to require the Foundation to be properly accountable for the ongoing performance of the goals and objectives contained in the Business Plan allowed a bad situation to become critical, and Provincial funding to be wasted.

Another situation that may also have contributed to a lack of adequate accountability was the Foundation's inappropriate governance structure. There was no clear separation of responsibilities between the Foundation's Board and management, even though such separation was required by the Business Plan. Further, at times during the period from February 1994 to April 1997, some directors of the Foundation were also directors of ACCESS. In my view, this dual role created conflicts of interest during their involvement in decisions relating to the sale and subsequent operation of CKUA Radio.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of the Executive Council for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry and Department financial statements.

Other entity

A financial audit of **Personnel Administration Office Revolving Fund** was also completed for the year ended March 31, 1997.

Guidance to reader

The Ministry provided approximately \$850 million to support adult learning and \$230 million to assist adult learners

The accuracy and reliability of KPI information is critical to plans for linking funding to performance

The Departmental review of institutional business plans is the primary mechanism for communication of expectations

The Ministry of Advanced Education and Career Development's mission is to provide leadership, and to work with its partners, including the public post-secondary sector, to set new directions for adult learning, and to provide Albertans with an accessible, responsive and affordable system of quality adult learning that is accountable for results. In addition, the Ministry provides career counseling, information services, and apprenticeship and trade certification programs.

In 1996-97, the Ministry spent nearly \$1.1 billion. Approximately \$850 million was used to support adult learning of which approximately \$770 million was provided to post-secondary institutions. In addition, approximately \$230 million was used to assist adult learners. In keeping with the Province's desire to promote accountability for the use of public funds, the Ministry is in the midst of an ambitious initiative to link post-secondary education sector performance to the use of public resources. To do so, the sector, working in concert with the Department, has developed a set of key performance indicators (KPI). These indicators are designed to provide information on institutional performance.

Beginning in 1997-98, KPI information will form the basis for the distribution of approximately 2.0% of the operating grant funding, referred to as the "Performance Envelope", to the post-secondary sector. The Ministry and the sector have worked hard for the past two years, first to agree on a model, and more recently in ensuring that KPI related definitions are applied appropriately. The latter issue is critical. Inaccurate and unreliable KPI information can hinder plans to link funding to performance. My Office has worked closely with the Ministry and the post-secondary education sector to identify inconsistencies and anomalies in the KPI-related information.

Each public post-secondary institution is required to submit its three-year business plan to the Minister. The strategies in these plans collectively should comprise the Province's three-year strategy for post-secondary education in Alberta. The Departmental review of these plans is the primary mechanism by which the two-way communication of

expectations occurs resulting in the framework for subsequent accountability reporting of actual results achieved. My Office has, over the past year, reviewed the systems used by the Department to determine whether these plans are sufficiently aligned to the Province's vision, and whether the plans include sufficient information to meet the needs of the Department and the post-secondary institutions. The results of our review are discussed on page 40.

Board governance at The University of Alberta could be improved through better linkage of the University's vision with reports on performance

At the request of the Board of Governors of The University of Alberta, my staff, working with the University's Internal Audit Department, completed an examination of the Board's governance system. The Board had established structures, processes and communication to assist it in discharging its responsibilities for effective governance. Although my staff did not observe any instances where the established system had failed, I believe governance could be improved through better linkage of the University's vision and strategic initiatives with reports on performance.

The key to success of the Skills Development Program is to assist adults facing barriers to employment at a reasonable cost

In 1996-97, approximately 13,200 students were provided skills development training and living allowances at a cost to the Province of nearly \$96 million. This Program is provided to adults facing barriers to employment. It provides them with access to education and training, and allows them to achieve independence through employment. Partnership arrangements with educational institutions, the Department of Family and Social Services, and Alberta Vocational Colleges (AVCs) were established to deliver this Program. The key to the success of such a program is to produce desired results at a reasonable cost. My staff reviewed the management information available for program assessment following public allegations of inappropriate practices within the Integrated Training Pilot Program.

The recommendations that follow recognize the need to ensure that significant risks in the advanced education sector are minimized through the establishment of effective accountability frameworks. Therefore, my recommendations are based on the usefulness of institutional business plans, effective institutional board governance, accountability in program development and contract management.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Advanced Education and Career Development for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry and Department financial statements.

Department of Advanced Education and Career Development year ended March 31, 1997

In addition to the annual financial audit of the Department which was carried out as part of the audit of the General Revenue Fund, the following work was completed:

- An examination of the processes followed and the information gathered by the Department when reviewing post-secondary business plans.
- An examination of the systems used by the Department to assess the adequacy of capital planning at post-secondary institutions.
- In response to a request from the Department, reporting on results of applying specified audit procedures on certain 1994-95 Key Performance Indicator data.
- An examination of the systems used by the Department to measure and report the performance of the Skills Development Program.
- In response to a request from the Department's Deputy Minister, an examination of the systems used by the Department to manage an Integrated Training Pilot Program contract.
- At the request of the Board of Governors of The University of Alberta, an examination of their Board governance system.

- Completion of a year 2000 risk questionnaire to identify the Department's risk of having its operations impacted as a result of its information systems not being year 2000 compliant.
- The reporting of results of applying specified audit procedures to the Ministry's core performance measures as presented in its 1996-97 annual report.

Business Plans - Background

The Department sets overall strategic directions for the sector

The Department works in partnership with the post-secondary institutions to realize the vision of an accessible, responsive, and affordable system of quality adult learning that is accountable for results. A key role of the Department in this partnership is the setting of overall strategic directions to achieve Ministerial policy and public interest objectives. The Department conveys these objectives through a number of tools including the Departmental business plan, policy statements, Key Performance Indicators (KPIs), and performance-based funding envelopes.

There is a need for two-way communication of expectations and needs between the institutions and the Department

A key role of the post-secondary institutions is to act as direct providers of education. Because of their greater proximity to students and employers, post-secondary institutions have increasingly become the main conduit through which the needs of these stakeholders are communicated to the Department. As a result, two-way communication of expectations and needs between the institutions and the Department is required if the sector is to be effective. This implies a dynamic process by which the institutional goals reflect the Department's direction while the Departmental direction is influenced by the institutions.

Post-secondary institution autonomy increases the need for accountability reporting

While the post-secondary institutions are expected to act in accordance with ministerial goals, at the same time they are expected to operate autonomously. The autonomy of educational institutions to make service delivery decisions does not reduce, rather it increases, the need to be accountable for the effective use of public funds. Accordingly, as the first step of the accountability process, post-secondary institutions are required to prepare, approve and submit to the Minister their business plans.

Institutional business plans are reviewed by the Department to assess institutional direction and financial position

The Department reviews these institutional business plans in order to assess each institution's financial position and where appropriate, to influence the future direction of individual institutions. To enable assessment of institutional direction, the business plans should include clearly defined goals and objectives, strategies for achieving the goals that are linked to the institution's financial plan, critical assumptions on which the plan is based, the projected revenues and costs of providing the services, and key performance measures by which the successful achievement of goals can be measured.

Institutional business plans

Recommendation No. 5

It is recommended the Department of Advanced Education and Career Development, working with post-secondary institutions, improve the effectiveness of institutional business plans.

Recent business plan guidelines lack detailed descriptions of required information

Working in partnership with the post-secondary institutions, the Department has made extensive efforts to ensure reporting comparability and to provide comprehensive business plan guidelines to the post-secondary institutions. The recently issued 1997-98 Business Plan and Annual Report Guideline package recommends "the strategies identified be explicit and measurable." However, more guidance may be required on the level of detail and type of information that should be provided to meet the needs of the Department and the institutions.

Current business plans do not provide sufficient information for strategic management purposes

My staff reviewed a sample of the 1996-97 three-year institutional business plans, for both public and private institutions. Specifically, we examined whether Ministerial goals were addressed by the institutions, whether the goals were supported by measurable strategies that were linked to the budget, and whether targets were set to enable performance assessment. We found that while considerable effort and resources are invested in the preparation of institutional business plans, the plans we examined are not comprehensive enough to act as an effective strategic management tool for either the Department or the institutions.

Effects of strategies are not directly linked to the institution's budget

The institutional plans that we reviewed, all directly, or indirectly, address Ministerial goals. However, the strategies supporting these goals are not always described in measurable terms nor are they linked to targets or performance indicators. Moreover, even in instances where the strategies are described explicitly and in measurable terms, the business plans do not provide sufficient detail as to how the strategies will affect the budget. For example, one institutional plan highlights a strategy to “increase part-time enrollment to the College to 30% of FTE’s” in pursuit of the Ministry’s “accessibility” goal. There is no accompanying discussion of how this will affect program costs or tuition revenues. As a result, it is not possible for the Department to evaluate the effect of such strategies on the financial plan. One of the important objectives of the business plan review conducted by the Department is to evaluate the financial position of the institution. Unless the institutional strategies are linked to the budget, the institution’s financial position cannot be properly assessed.

Key assumptions should be clearly stated and considered in the Departmental review

Furthermore, the institutional business plans often lack a discussion of key assumptions made in their development, such as student enrollment projections and changing student demand for programs. An integral part of the business plan review process by the Department should be an evaluation of the key assumptions incorporated into the plan. This part of the review would alert the Department to any risks inherent in the assumptions that may significantly affect the ability of the institution to realize Ministry goals.

Additional guidance will focus efforts on the preparation of relevant information

By working with the institutions on the types and form of information to be included, business plan preparation time could be reduced and the usefulness of the information improved. Having more relevant information will also allow the Department to determine at the business planning stage, and in measurable terms, the extent to which institutions plan to contribute towards sector-wide goals.

**Capital Asset Replacement
and Renewal - Background**

The mechanisms available for the funding of capital asset replacement and renewal have become quite complex over the past few years

The mechanisms available for the funding of capital asset replacement and renewal have become quite complex over the past few years. Institutions are responsible for the management of all capital assets. Apart from the institutional base grant, the Department has funding, referred to as funding envelopes, available to meet requests for capital asset funding. Ancillary capital needs are financed by revenues generated from ancillary activities. Generally, funding for furnishings and equipment is included in the institution's base funding and is available from revenues generated from external sources. Infrastructure renewal requirements receive funding primarily through allocations from the Infrastructure Renewal Envelope and through institutional base funding.

**Reporting capital
requirements**

Departmental policy expects capital adequacy to be addressed in institutional business plans

Current business plans do not include a capital budget

Recommendation No. 6

It is recommended the Department of Advanced Education and Career Development obtain information regarding the institutions' long-range funding requirements for capital assets to facilitate the Department's assessment of the financial position of institutions and the advanced education sector.

According to the policies issued by the Department for institutions, it is expected that the capital assets component of the three-year business plan should clearly identify capital asset needs, and indicate the method of financing — whether through Departmental envelope funding, or other institutional funding.

My Office has reviewed several 1996-97 three-year institutional business plans, and none include a capital budget, or other information, that indicates that the institution has appropriately planned for future capital funding requirements. The Department has taken a significant first step in addressing capital asset requirements for the sector by recently engaging an independent consultant to report on the sector's capital infrastructure requirements for the next five years. However, this report will not provide any information regarding ancillary facilities, student residences, parking facilities, and furniture and equipment needs.

Information regarding capital requirements is necessary to evaluate an institution's financial position

Without information on the timing and amount of capital asset purchases anticipated, it is not possible for the Department to assess the financial position of an institution, even if the institutional budget shows a break-even or surplus position. In cases where institutions have budgeted and operated on a break-even basis, the recording of amortization expenses for capital assets that were funded internally may have resulted in some funds being available for capital asset acquisition. However, given inflation and changes in the type of equipment used in teaching, the funds available in those cases may not be sufficient to cover future capital asset needs. Without capital adequacy information, the Department cannot conclude on the institutions' ability to fund future capital requirements.

Skills Development Program - Background

This Program is expected to reduce dependency on government assistance

The aim of the Skills Development Program (SDP) is "to provide financially disadvantaged adults with access to the level of education and training necessary to enable them to achieve independence through employment". The types of training that are eligible for assistance under the SDP are academic upgrading and basic foundation skills. Through such a Program, the government expects a decrease in the number of individuals dependent on government assistance.

The Department works with various partners to deliver the Skills Development Program

The SDP is delivered by a partnership of the Department of Advanced Education and Career Development (the Department), the Department of Family and Social Services (FSS), and public and private educational institutions. The Department has responsibility for administering and coordinating the Program. FSS, Alberta Vocational Colleges and the Department's Career Development Centres provide counseling, and screen clients for eligibility for the Program. The Students Finance Board (SFB) reviews and processes applications for financial assistance, and determines the extent of assistance that should be provided based on its assessment methodology. Public and private educational institutions are responsible for placing participants into programs that deliver courses at levels appropriate to their educational and employment goals.

**Performance measures for
the Skills Development
Program**

The Department should clarify with its partners the criteria for success so that desired outputs and outcomes can be defined

The Department should establish specific annual targets and determine the full cost of program delivery

Recommendation No. 7

It is recommended that the Department of Advanced Education and Career Development clarify the goal of the Skills Development Program with its delivery partners and set output and outcome targets to facilitate performance measurement of the Program.

To measure the performance of SDP, a system which compares relevant outputs, outcomes and costs to targets needs to be established. The Department has established the goal of SDP and certain performance indicators but has not defined specific output and outcome targets, except for one indicator. One of the reasons that the Department has not established output and outcome targets is that there are different partners involved in this Program, and there is not a consistent view between the partners of the criteria for success. For example, some of the partners place a greater emphasis on the enrollment of the participants in the training program rather than whether the training contributed to an improvement in the employability of the participants. Establishing criteria for success impacts the type of individuals placed into the Program and also the costs involved. There is a need for the Department to clarify with its partners the criteria for success.

Once the criteria for success have been established, the Department should set specific annual targets for these performance indicators and determine the full cost of program delivery. For instance, specific annual targets could be set on a program level for the number of participants completing training, and the number of participants finding employment that lasts longer than a specified period of time. Targets could also be set for the costs involved in providing SDP. These costs should include overhead and counseling costs currently paid from the Department's operating budget, but not currently allocated to the Program.

Targets should be established when programs are developed and revised as more information becomes available

The Department is in the process of establishing outcome and output targets as certain baseline information is gathered. In my view, targets should be established when programs are designed. As more information becomes available, targets can then be refined. Having targets, even at a preliminary level, would encourage partners to strive for improvements in the achievement of the results. This information would also be useful for program evaluation and allocation of resources.

Integrated Training Pilot Program - Background

The Deputy Minister requested an examination of systems used to manage certain contracts

In response to a request from the Deputy Minister of Advanced Education and Career Development, my staff completed an examination of the systems used by the Department to manage certain contracts. This examination followed public allegations of inappropriate practices relating to the Integrated Training Pilot Program contract between the Department and M & M Careers Ltd.

Many of the problems that can result from inadequate program development, contract definition and contract management are illustrated by the following recommendations and observations arising from my review of the contract.

The Department entered into a contract with M & M Careers Ltd.

The Department entered into a contract dated July 29, 1994, with M & M Careers Ltd. to provide integrated training services in Calgary during the period June 1, 1994 to March 31, 1996. This period was subsequently extended by contract amendment to March 31, 1997. The contract provided for payments to M & M Careers Ltd. of up to \$1.54 million for services within the Department's Integrated Training Pilot Program. The Program was designed to provide integrated job-training and life-management training to clients who receive benefits related to the Department of Family and Social Services' Supports for Independence Program. Although the contract was between the Department and M & M Careers Ltd., the services were provided by a company associated with M & M Careers Ltd., Career Designs Inc.

My overall conclusion was that the Department did not manage the contract effectively

My overall conclusion was that the Department did not manage the Integrated Training Pilot Program contract with M & M Careers Ltd. effectively, with the result that many operational problems ensued. The following recommendations are designed to improve the Department's contract management procedures, performance

measurement, and procedures for dealing with allegations of inappropriate practices. Additional recommendations arising from this examination have been made in the Department of Family and Social Services section of this report.

Negotiating and Drafting Contracts

It is recommended that the Department of Advanced Education and Career Development ensure that the contracts it enters into clearly reflect all significant negotiated conditions and expectations.

*Some of the contract terms
were not well defined*

Some of the terms in the Department's contract with M&M Careers Ltd. were not well defined. As a result, uncertainty existed regarding what constituted performance under the contract in certain circumstances, and about the evidence needed to demonstrate performance of services.

*The contract required
amendment because
targets were determined to
be unattainable*

The contract contained specific performance targets which appeared to be unattainable, hence the contract required amendment. The original contract called for at least 330 clients to complete their training by December 31, 1995, of which at least 231 were to have been placed in employment for a period of at least three months. This requirement was revised to require 230 clients to complete their training by December 31, 1995. Of these clients, at least 161 were to have been employed for at least three months by March 31, 1996. The reasons for this amendment appear to be that the delivery of services by Career Designs Inc. did not commence until July 1994, and the number of clients being referred by the Department of Family and Social Services was below the figure anticipated.

*Further modifications to
contract requirements
were never incorporated
into the written contract*

The Department further modified the requirements by verbally informing Career Designs Inc. that the three months of employment had to occur within the five months following completion of training. The intention to include this contract modification was evidenced in the Department's contract discussion notes. However, this change was never incorporated into the written contract.

Confusion as to some of the contract's performance expectations occurred

The uncertainty about the validity of the verbal change, together with the absence of an adequate definition of contract requirements, appears to have led to confusion in the minds of staff at Career Designs Inc. as to some of the contract's performance expectations. In order to obtain clarification whether certain clients qualified as graduates and/or placements under the contract, it was necessary for Career Designs Inc. to seek individual rulings from the Department.

Contract Management

It is recommended that the Department of Advanced Education and Career Development obtain appropriate evidence of contract performance prior to approving contract payments.

The Department approved placement incentive payments without obtaining evidence that contractual requirements had been met

The Department approved placement incentive payments to Career Designs Inc. without first obtaining appropriate evidence that all the services had been provided in accordance with contractual requirements. For the period ended March 31, 1996, Career Designs Inc. was paid a placement incentive of \$1,017 per graduate for the maximum number of 161 clients out of the 164 clients that it reported as being placed. However, the Department did not have procedures to verify the accuracy of the placements reported. Also, Career Designs Inc. could not provide reliable assurance regarding the placements they reported because the Department had instructed Career Designs Inc. not to contact employers due to confidentiality concerns.

A survey revealed cases where the Department may not have been justified in paying the placement incentive

The risks inherent in paying for placements that are not verified directly with employers is illustrated by a consultant's survey which revealed cases where the Department may not have been justified in paying the placement incentive to Career Designs Inc. Many of these cases, however, relate to the Department's verbal requirement for employment to take place within five months of graduation.

The Department also made other payments that cannot be fully substantiated

The Department made other payments within the Integrated Training Pilot Program contract to M & M Careers Ltd. that cannot be fully substantiated. The contract called for M & M Careers Ltd. to graduate at least 230 clients by December 31, 1995, and to be penalized \$800 for each graduate below that number. However, there is insufficient evidence on the files of Career Designs Inc. to indicate that clients graduated. Also, the consultant was unable to contact

a large number of the 239 reported graduates, and some of the clients contacted contested the accuracy of the information provided to the Department by Career Designs Inc. The Department would have become aware of the lack of adequate evidence much earlier if its site visits had been more effective.

Referrals to Training Programs

It is recommended that the Department of Advanced Education and Career Development ensure that clients who enter the Integrated Training Pilot Program are appropriately referred thereto by the Department of Family and Social Services.

Some clients may not have been appropriately referred to the Program

There are indications that some of the clients referred to the Integrated Training Pilot Program may have been inappropriately referred to this type of training. In order for a Supports for Independence client to be trained in the Integrated Training Pilot Program, a referral is required from an Employment and Client Support Services Worker of the Department of Family and Social Services indicating that the client has been assessed as being able to benefit from this type of training. However, some referrals were obtained over the telephone by Career Designs Inc. and were not followed up in writing. Also, some of the telephone referrals were made by Financial Benefit Workers from the Department of Family and Social Services who may not be qualified to assess the suitability of clients for training of this nature.

The Department should instruct service providers to train clients only after appropriate written approval has been obtained

I acknowledge the difficulties inherent in screening out all clients who are subject to physical and social barriers that would prevent them from successfully benefiting from the Integrated Training Pilot Program. Nevertheless, the Department of Family and Social Services' client files contain much of the information needed to provide appropriate referrals. To ensure that only clients who have been assessed as capable of benefiting are accepted into the Integrated Training Pilot Program, the Department should instruct service providers to train clients only after written approval has been obtained from an Employment and Client Support Services Worker of the Department of Family and Social Services.

Performance Measurement

It is recommended that the Department of Advanced Education and Career Development, in consultation with the Department of Family and Social Services, define all the expected outcomes of the Integrated Training Pilot Program. These shared objectives can then be a basis for developing the performance measurements needed to assess and report on the achievements of the Program.

The qualitative as well as quantitative aspects of the Program should be assessed

The main emphasis of the Program is to help Supports for Independence clients move towards independence by obtaining employment. However, in order to fully understand the results of the Integrated Training Pilot Program, it may be necessary to assess the qualitative as well as the quantitative aspects of the Program.

The only measures used to compensate Career Designs Inc., and presumably to determine the success of the Program, were the number of program graduates and employment placements. Perhaps incremental improvements, such as increases in the employability of clients, could be assessed and tracked. As well, the costs of achieving these outcomes should be determined and reported.

Procedures for Dealing with Allegations of Inappropriate Practices

It is recommended that the Department of Advanced Education and Career Development establish procedures for dealing effectively with allegations of inappropriate practices.

The Department did not deal effectively with allegations from former employees of Career Designs Inc.

The Department did not deal effectively with the allegations from certain former employees of Career Designs Inc. These allegations referred to inappropriate practices relating to the Department's contract with M & M Careers Ltd. The allegations were originally made in April 1996 to the South Region office of the Department of Advanced Education and Career Development. However, despite the apparent seriousness of the allegations, certain senior managers of the Department were not informed until much later.

The Department did not adequately inform the former employees that progress was being made

Although the Department began to review the allegations soon after receiving them, the former employees of Career Designs Inc. were not adequately informed that progress was being made. This appearance of inaction by the Department increased the frustration of the former employees which resulted in them allowing their names to be used in news releases.

The Department should encourage staff and others to report inappropriate practices

The Department should encourage staff and others to report inappropriate practices. This is best achieved by the Department demonstrating that it is responding quickly, and where appropriate, visibly, in the event of any such situations.

Tuition fee policy

In the 1995-96 annual report (page 42), it was recommended that the Department of Advanced Education and Career Development work with the post-secondary education sector to facilitate a consistent, reliable and well-understood application of the tuition fee policy across the sector.

The Department has issued tuition fee policy guidelines which clarify how the policy is to be applied

The tuition fee policy requires that tuition fees charged to students not exceed 30% of the post-secondary educational institution's net operating cost. In 1995-96, discussions between my staff and management at institutions indicated that there was not a consistent understanding across the post-secondary educational sector on how to apply the policy. The Department has since issued tuition fee policy guidelines which clarify how the policy is to be applied. I am pleased with the progress made by the Department, and will continue to monitor the success of the Department in implementing my recommendation.

Alberta Vocational Colleges

The Department plans to place the four Alberta Vocational Colleges under the Colleges Act so they will each become a separate, board governed institution. The Department has coordinated the development of a governance structure, business plans, policies, information systems, employee collective agreements, pension liabilities, and divesting of the assets currently owned by the Ministry and the Department of Public Works Supply and Services. The Department requested the assistance of my Office in these undertakings and we were pleased to help.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1997:

Non-Profit Private Colleges Foundation
Public Colleges Foundation of Alberta

Matters related to Post-Secondary Educational Institutions

The Provincially owned universities, colleges and technical institutes, and The Banff Centre operate under the authority of the Universities Act, the Colleges Act, the Technical Institutes Act, and The Banff Centre Act, respectively. Their financial statements are not included in the Province's consolidated financial statements, but are included in Volume 4 of the Public Accounts.

Annual financial audits, for the year ended June 30, 1997, of the following entities were in progress at the date of this report. Any findings arising from these audits will be included in my next annual report.

Alberta College of Art and Design
Fairview College
Fairview College Foundation
Grande Prairie Regional College
Grande Prairie Regional College Foundation
Grant MacEwan Community College
Keyano College
Lakeland College
Lethbridge Community College
Medicine Hat College
Medicine Hat College Foundation
Mount Royal College
Mount Royal College Day-Care Society
Mount Royal College Foundation
Northern Alberta Institute of Technology
Olds College
Olds College Foundation
Red Deer College
Southern Alberta Institute of Technology

Key Performance Indicators

At the request of the Department, my staff performed specified auditing procedures on selected 1994-95 KPI data submitted to the Department by six post-secondary institutions. The institutions who volunteered for the engagement are Medicine Hat College, Mount Royal College, Northern Alberta Institute of Technology, Olds College, the University of Calgary and the University of Lethbridge. This engagement marks the first step in the process to eventually provide audit assurance on the KPI information.

The application of specified auditing procedures revealed variations in the application and interpretation of the KPI Reporting Manuals

We found variations in the application and interpretation of the KPI Reporting Manuals. Generally, the variations highlight the complexity of the reporting process, the need for institutional systems to produce the required information efficiently, and a variety of situations not contemplated or covered by the Manuals. Since we carried out the procedures at a time when the Manuals were being updated, it was understandable that variations in the application and interpretation of the Manuals would have occurred.

A number of institutions expressed concerns related to this form of accountability measurement

Comments made by various institutions on the KPIs provided us with considerable insight into some of the concerns and difficulties they are experiencing with this new form of accountability measurement. A number of institutions appeared to be concerned that the KPIs, and the associated reporting practices, are not yet sufficiently developed to enable an assessment of institutional performance. Therefore, some institutions have indicated to us that the linkage of KPIs to “performance envelope” funding may be premature. These concerns are understandable. However, I am of the opinion that the “corridor” concept, which links a range of performance results to one rating, provides a safeguard to neutralize the effects of minor reporting anomalies between institutions.

Significant progress has been made in the development of KPIs

In my view, the Department and the post-secondary institutions are to be commended on the significant progress they have made towards developing the KPIs and the related mechanisms to assess the performance of the Province’s adult learning system. Further efforts are required to resolve inconsistencies in the calculation of full-time equivalents, total headcounts, and completers.

I believe the use of KPIs as a tool for measuring performance in the adult learning system will improve as more experience is gained on how to align KPIs with stakeholders’ expectations. Furthermore, over time, the process of producing reliable and relevant KPIs will become more cost-effective.

Athabasca University
year ended March 31, 1997

In addition to the annual financial audit, my staff completed a financial audit of the **Athabasca University Foundation** for the year ended March 31, 1997.

The University of Alberta
year ended March 31, 1997

In addition to the annual financial audit, my staff completed financial audits of the following related organizations for the year ended March 31, 1997:

The Laser Institute
University of Alberta 1991 Foundation

At the request of the Board of Governors, my staff, working with The University of Alberta Internal Audit Department, completed an examination of the University's Board governance system. The recommendations formed the basis of initiatives developed by the Board of Governors to improve governance.

**Planning and Reporting
Process**

It is recommended that the Board of Governors of The University of Alberta, in conjunction with senior management, improve the planning and reporting process so that the University's results can be measured and reported against plans.

*Indicators and targets
should be defined in clear
and measurable terms to
facilitate performance
measurement*

The Board and senior management established nine strategic initiatives. To provide direction to the academic and support units on how each initiative is expected to contribute to the attainment of the University's vision, some key management indicators and targets were developed. However, several indicators and targets were not defined in clear and measurable terms and, as a result, performance could not be assessed. The lack of performance targets in measurable terms impairs the Board's ability to objectively assess whether the strategic initiatives are contributing to the achievement of the vision.

Existing business plans cannot be used to monitor and report on the University's performance

The business plan does not clearly state the desired long-term objectives of all of the strategic initiatives, how they will be achieved, estimated costs, performance measures, targets and milestone dates. In addition, the business plan is not linked to the operational plans of the academic and support units. The plans in their present form cannot be used to monitor and report on the University's performance.

The annual report should provide the link between the University's strategies and its results

The University's annual report includes some useful information, but I believe that it could be improved. The report should include information that can assist the Board and stakeholders in assessing the University's performance in relation to established plans. As the main accountability document, the annual report should provide the link between the University's strategies and its results.

Monitoring and Assessment of the University's performance

It is recommended that the Board of Governors of The University of Alberta, in collaboration with senior management, define the types and frequency of information needed, and provide for management control systems to facilitate the monitoring and assessment of the University's performance.

Information provided to the Board should be relevant, reliable, and consistent

Information provided to the Board should be relevant, reliable, and consistent. The information should show a link between the results of the strategies or plans and the University's established expectations. Good governance information discusses options, is forward looking, illuminates policy and administration, recognizes appropriate time frames, facilitates comparison, and promotes understanding without oversimplifying.

Senior management should periodically provide a set of selected indicators that can help the Board assess how well the University is performing

Most of the Board members my staff interviewed indicated that they were overwhelmed with the volume of information provided. While members agreed that the reports contained some useful information, in many cases the reports did not provide sufficient information to enable them to assess whether the University is achieving desired results in an efficient and cost-effective manner. Senior management should periodically provide a set of selected indicators that can help the Board assess how well the University is performing relative to its strategic initiatives. The information provided should integrate operational and financial data, and should allow comparison against desired targets.

Additional performance indicators could be developed and reported

My staff noted that the University already produces some indicators, such as the composition of its students, the number of degrees granted, the amount of research funding obtained and the number of spin-off companies generated. These indicators are included in a variety of internal and external reports. In addition, some other measures relating to the University's success in improving its accessibility and affordability to students and the responsiveness of programs to students' needs could also be produced. The information could also include indicators such as cost per full time equivalent student, cost per graduate, completion rates and measures of learning quality relative to other universities.

The Board needs to improve the overseeing of management systems to ensure that control objectives promote efficient and effective operations

I believe the Board members would benefit from a clearer understanding of how the control systems are structured and managed at the University. Currently, some aspects of this role are carried out by the Board Audit Committee. The Board needs to improve the overseeing of management systems to ensure that control objectives promote efficient and effective operations. Also, the systems should be capable of promoting unbiased internal and external reporting, and ensuring compliance with institutional policies, laws and regulations. The Board should assess key managers and management structures for capacity to effectively discharge management control responsibilities.

The University of Calgary
year ended March 31, 1997

In addition to the annual financial audit, my staff completed financial audits of the following related organizations for the year ended March 31, 1997:

University of Calgary Foundation
University Technologies International Inc.
Olympic Oval/Anneau Olympique
The Arctic Institute of North America

The University of Lethbridge
year ended March 31, 1997

In addition to the annual financial audit, my staff completed the financial audit of the **University of Lethbridge Foundation** for the year ended March 31, 1997.

The Banff Centre for Continuing Education
period ended September 30, 1996

In addition to the annual financial audit, my staff completed a financial audit of the **Banff Centre Foundation** for the year ended March 31, 1997.

Due to the effects of changes to the Banff Centre Act regarding the appointment of members of the Board of Governors, the Centre ceased to be a Provincial agency in November 1996. Consequently, the next audit of the Centre will not be performed by the Auditor General.

Grant MacEwan Community College**Planning and Reporting**

In the 1995-96 annual report (page 52), I recommended that the College improve the communication of planning and reporting information between the five academic divisions and the Board of Governors and senior management. This recommendation was accepted by the College, and I am pleased to report that progress has been made.

Business plans now link goals and risks to strategies and outputs

Although the divisional business plans vary somewhat in their degree of development, all the plans now discuss the goals and objectives, major risks, and critical success factors of their respective divisions. This permits a clearer linkage of strategic initiatives to the achievement of goals and the management of risks. It also establishes a framework for performance measure targets and milestone dates. These targets and dates have now begun to be included in the plans.

Planning and reporting are integrated in the accountability cycle

The College has also integrated the annual reporting process of the divisions with the business planning cycle. Commencing in 1996-97, the annual review process involving the divisions, senior management, and the Board combined the analysis of the previous year's results with the plans for the coming year. The business plans also set out the financial plans of the divisions. These projections form the basis for the budget subsequently submitted for approval by the Board.

The College is working to improve linkages between business plans and the budget

The College anticipates that divisional business plans will continue to improve as more experience is gained. The linkages between the business plans and the budget process are also expected to improve as better information on program costs becomes available. My Office will continue to monitor the College's progress in these areas.

Lethbridge Community College

In addition to the annual financial audit, and at the request of the College and the Foundation, my staff reported on specified auditing procedures performed on selected 1995-96 KPI data submitted to the Department.

Northern Alberta Institute of Technology

In the 1995-96 annual report (page 54) I recommended that the Northern Alberta Institute of Technology include the setting of measurable expectations as part of the planning for Extension Services activities, so that achievements can be properly assessed. I am pleased to report that the Institute formed a review team to develop a detailed three-year strategic plan for Extension Services. The recommendations made in my 1995-96 annual report will assist the team in overseeing the design of an appropriate financial and audit system. I will continue to monitor the success of the Institute in implementing my recommendations.

Olds College

In addition to the annual financial audit, my staff completed an examination of the system of controls over the assets and the recording of transactions of the Olds College Foundation.

Guidance to reader

The Ministry of Agriculture, Food and Rural Development supports the development of the Province's agriculture and food industries in their attempts to meet ever-changing market demands. The Ministry comprises the Department, the Agriculture Financial Services Corporation, the Alberta Agricultural Research Institute, the Alberta Dairy Control Board, the Agriculture, Food and Rural Development Revolving Fund, and three regulated funds. The Ministry's 1996-97 expenditures were approximately \$505 million.

One of the Ministry's largest support programs is the Farm Income Disaster Program (FIDP). FIDP was introduced in 1995 on a three-year trial basis, with the first payments being made in 1996. FIDP is a whole farm income safety-net program which provides financial assistance to farmers who experience disastrous reductions in farm income. It is designed to support the Ministry's goal of strengthening the industry's ability to manage risk and uncertainty, while at the same time complying with international trading agreements. FIDP is funded by the Department and administered by the Agriculture Financial Services Corporation (the Corporation), which paid farmers approximately \$63 million in financial assistance during the program's first year.

The Department and the Corporation were largely successful in avoiding the serious administrative and accountability problems that were experienced when implementing earlier farm support programs. But even so, some of the processes used by the Corporation to measure whether the objectives of the program are being met could be improved. In particular, program evaluation criteria could be better defined. These areas were the focus of my Office's audit work for 1996-97.

The Ministry has also continued with its efforts to improve the efficiency and cost-effectiveness of its business practices. The Department and the Corporation have further consolidated their network of field offices, and a Point of Sales Transaction (POST) system was implemented by the Corporation during 1996-97 to help field office staff provide better and faster service. Decentralizing and streamlining business processes, however, present challenges for senior management. Appropriate control and accountability reporting systems are needed to enable senior management

to monitor and manage the Corporation's day-to-day affairs. In this regard, an effective internal audit function can provide valuable assurance (or otherwise) to management and to the Board that control and accountability reporting processes are operating as intended. For this reason, the 1996-97 audit work included an examination of the processes and programs of the Corporation's internal audit function.

During 1996-97, the Department continued to operate Provincial grazing reserve operations, although the gradual privatization of the grazing reserves is progressing. The Department uses a revolving fund to account for grazing reserve operations separately from the Department's other operations. Each year, significant land improvement and maintenance costs are incurred to operate the Provincial grazing reserve lands. However, only a portion of these costs are reported as part of the revolving fund. Accordingly, our 1996-97 audit work included efforts to improve legislative compliance of and the financial reporting for grazing reserve operations.

The financial audits conducted for the year ended March 31, 1997, included the audits of the consolidated financial statements of the Ministry and the financial statements of the Department. In addition, my staff conducted a review of the Ministry's performance measures and provided feedback to assist the Ministry in improving future accountability reporting.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Agriculture, Food, and Rural Development for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry and Department financial statements.

Agriculture Financial Services Corporation
year ended March 31, 1997**Scope of audit work**

In addition to the annual financial audit, the following work was completed:

- An examination of the Corporation's processes to administer and evaluate the Farm Income Disaster Program (FIDP).
- An examination of the audit approach and effectiveness of the internal audit function of the Corporation.

**Farm Income Disaster
Program - Evaluation
criteria****Recommendation No. 8**

It is recommended that the Agriculture Financial Services Corporation, together with the Department of Agriculture, Food and Rural Development, develop measurable evaluation criteria that can be used to determine and report on the effects of the Farm Income Disaster Program.

*FIDP is a whole farm
support program*

The Farm Income Disaster Program (FIDP) was implemented in 1995, in many ways as a replacement for the Gross Revenue Insurance Plan (GRIP) Program. FIDP is a whole farm support program, whereas GRIP was a commodity-specific support program. FIDP provides financial support to Alberta farmers whose farm income in any year falls below 70% of the average of their farm income during the previous three years (the reference period). A key eligibility criteria for claims under FIDP is that the reduction in their farm income must have occurred for reasons that were beyond the control of the claimants.

The criteria used to assess FIDP's success are not stated in measurable terms or targets

The criteria being used to measure the performance and impact of FIDP are adaptations of previously developed performance measurement criteria for safety net programs. In some cases, however, these criteria are not stated in measurable terms or targets. For example, one such criterion is the increased use by farmers of risk-management tools such as contracting and hedging. Yet there is no defined way of computing such an increase, nor a target for what would be considered a satisfactory increase. Another performance criterion for FIDP is the decrease in the number of farmers whose income levels fall below the 70% reference level. Here again, there is no target for what will be considered a satisfactory decrease. Another difficulty with this latter performance criterion is that it does not take into account increases or decreases caused by non-controllable occurrences such as significant commodity price fluctuations and extreme weather conditions. Measurable performance criteria and targets are an important pre-requisite to the meaningful evaluation and reporting on the success of FIDP.

Management information should be enhanced to include the impact of actual claims experience on the program

The computer program used to administer FIDP provides much useful management information about claimants. This includes the type of farming or food-related industry they are involved in, their location in the Province, and the types of expenses they incur. This information can be used to analyze actual claims experience under FIDP compared to forecasts. In this regard, however, it would be useful to evaluate the impact that unanticipated claims results have on program expenditures. Some of these results may arise from inconsistencies in the design of FIDP.

FIDP allows claims for losses incurred in certain situations that are within the claimant's control

For example, one of FIDP's defined goals is "to ensure that the Program is neutral to marketing and production decisions." Despite this, the FIDP rules allow claims for losses caused by changes in ownership, in business structure, in the size of operations, and in farming practices, even though these decisions are within the control of the claimant. The FIDP rules do, however, allow the Corporation to deny or limit such claims.

The Corporation paid for losses due to a change in farming operation

I am concerned that the practice of paying claims for losses that have resulted from business decisions may be affecting those decisions, and therefore be offending FIDP's goal of market and product neutrality. For example, the Corporation has paid claims under FIDP where the decline in the farmer's

income was due to a change in the farming operation. In one case, a farmer changed from a dairy to a beef operation, and the Corporation paid his FIDP claim for \$86,000 for the first year of his beef operation, using the previous three years of dairy operations as his reference period.

Payments under FIDP should compensate claimants for losses resulting from uncontrollable risks

In my view, the knowledge that FIDP will compensate a farmer for losses arising from a production or marketing decision will inevitably impact that farmer's decision, or its timing. Situations such as the one outlined above should be evaluated to determine the likely impact of a FIDP claim on the farmer's decision-making. Consideration might also be given to achieving neutrality by basing the farmer's claim on a reference period representing a typical Provincial beef operation, rather than the farmer's actual dairy operation. My main concern here, however, is that FIDP should measure and report results in a manner which is consistent with the overall program objective to support farmers whose incomes are reduced by uncontrollable risks.

The Corporation has implemented some procedural changes in the second year of FIDP

I am informed that the Corporation has implemented some procedural changes for the second year of the Program. These changes include a provision for Corporation staff to assess FIDP claims based on beginning farmer margins, rather than on reference period margins, when the nature of the operations has changed.

A Risk-focused Approach for the Internal Audit Function

It is recommended that the Agriculture Financial Services Corporation's internal audit function improve its support to the Board of Directors and to management in the achievement of effective governance by planning and conducting its reviews of processes and programs based on an assessment of risks.

The internal audit function can provide the Board with assurance regarding approved policies

In a large and complex organization, an internal audit function can provide a variety of valuable services. The organization's governing board, usually through an audit committee, approves the mandate and objectives of the internal audit function, and therefore approves the scope of its operations.

An internal audit function can assist the board by providing assurance that approved policies are supported by control processes which, in turn, are furthering the achievement of organizational objectives. It can also provide the board with independent assessments of operational efficiency and effectiveness within the context of the risks faced by the organization.

The focus of the Corporation's internal audit function is on compliance with policies and procedures

Although the approved mandate of the Corporation's internal audit function is comprehensive, a major focus of the internal audit work performed is on compliance with policies and procedures. Large numbers of individual transactions are audited each year at regional and district offices, generally without an evaluation of systems or processes. More attention needs to be given to the effectiveness or efficiency of those policies and procedures.

Internal auditors can provide management with assurance regarding control processes

Internal audit reports can provide the Corporation's Board of Directors with evaluations of management's stewardship of resources. Internal audit can also assess the appropriateness and effectiveness of control processes, and the degree to which they identify and mitigate risks.

Internal audit reports rarely contain useful evaluations of the appropriateness of the processes and controls

Audit reports submitted by the internal audit function to the Corporation's Audit Committee, however, usually detail the scope of work performed, the number of files or contracts etc., examined, and the number and nature of errors and instances of non-compliance found. The reports rarely contain useful evaluations of the appropriateness of the processes and controls, or assessments of the impact of the audit findings on the Corporation's operational efficiency. Furthermore, the reports are often not timely. Internal audit's findings on some regional audits were not reported to the Audit Committee until six months after the completion of the audits. Delays in issuing internal audit reports reduce their usefulness to the Board of Directors and to management.

Internal audit plans are lacking details of identified risks or the criteria to be used in evaluating the Corporation's systems or information

To ensure that internal audit is focusing on issues important to the Board, the Audit Committee should conduct a critical evaluation of internal audit plans. To facilitate this review by the Audit Committee the internal audit plans should set out details of identified risk or assessments thereof, or the criteria to be used to evaluate the systems or information that will be examined.

Amendments to Legislation

In my 1995-96 annual report (page 61), it was recommended that the Agriculture Financial Services Corporation obtain legislative amendments before implementing changes in its operating policies that are otherwise inconsistent with legislation. This recommendation was based on observations that the Corporation had not obtained the necessary legislative amendments prior to implementing changes in its operating policies. I am pleased to report that no instances of non-compliance with federal/provincial legislation and agreements or inconsistencies in contract interpretation were noted in the current year.

Agriculture, Food and Rural Development Revolving Fund year ended March 31, 1997

Existence of the Revolving Fund

It is recommended that the Department of Agriculture, Food and Rural Development wind up its revolving fund and account for all assets, liabilities, revenues and expenses of the Province's grazing reserve operations in the financial statements of the General Revenue Fund.

The Revolving Fund's main activity is operating the Province's grazing reserves, which are rapidly being privatized. Last year I suggested that the Department consider whether continuing to operate a revolving fund is justified. The Department agreed to re-evaluate the need for the Revolving Fund when more of the reserves are privatized over the next three to four years. During the current year, however, my staff examined the legislative authorities for the Revolving Fund's operations.

I have concluded that many of the Revolving Fund's activities were not authorized by legislation. The Revolving Fund is governed by Treasury Board Directive 19/94, the Agriculture, Food and Rural Development Revolving Fund Directive (the Directive). The Directive was made under section 21.1 of the Financial Administration Act. However, my legal counsel advises that the legislation does not authorize use of the Revolving Fund for the receipt of Provincial grazing reserve revenues, the acquisition of improvements to land, or the transfer of assets acquired by the Department before the Directive came into effect.

During 1995-96 and 1996-97 the Department transferred Provincial grazing reserve revenues into the Revolving Fund. My legal counsel advises that, under section 19(1) of the Financial Administration Act, the Provincial grazing reserve revenues were revenues of the General Revenue Fund, not of the Revolving Fund. Also, the expenditure of the Provincial grazing reserve revenues should have been subject to appropriation by the Legislature.

When the Revolving Fund was created on April 1, 1995, the Department transferred existing land improvements, supplies and equipment to the Revolving Fund, as instructed by the Treasury Board. In addition, the Revolving Fund was subsequently used to acquire land improvements. Section 3 of the Directive allows the Minister of Agriculture, Food and Rural Development to use the Revolving Fund to acquire "equipment, supplies and services required to provide supplies or services to any department," etc. including the Department of Agriculture, Food and Rural Development. There is no legislative authority for the Revolving Fund to acquire the assets transferred from the Department on April 1, 1995, or to acquire subsequent land improvements. My Auditor's Report on the financial statements of the Revolving Fund referred to the legislative non-compliance reflected in the transfer of land improvements. I indicated that, in my opinion, there was no inappropriate use of public money. I acknowledge that the Department has received a legal opinion from Alberta Justice that supports the use of the Revolving Fund to acquire land improvements. I have been informed that Alberta Justice is reviewing the other legislative compliance issues mentioned above.

In addition to concerns over legislative non-compliance, I have concerns related to the financial reporting of the Revolving Fund. Although all revenues generated from grazing reserve operations are reported as income of the Revolving Fund, all program and administrative expenses are not. A significant portion of program costs, such as costs to maintain and enhance grazing reserves, are borne by the Department of Agriculture, Food and Rural Development, a component of the General Revenue Fund. This accounting treatment can be misleading because revenues are not matched with related expenses. Users of the Revolving Fund's financial statements might conclude that the Provincial grazing reserves are operating on a break-even basis, when in fact they are operating at a substantial cost to the Province.

Certain administrative expenses are also excluded from the Revolving Fund. These expenses are clearly relevant to Revolving Fund operations but are not contemplated by the Directive. For example, accrued costs incurred under defined benefit pension plans, employee disability plans and vacation pay entitlements for employee services rendered in Revolving Fund operations are excluded from the financial statements of the Revolving Fund. These costs, estimated to be approximately \$1.5 million per year, are reported in the financial statements of the Province's Treasury Department.

While I acknowledge the Department's plans to continue the privatization of Provincial grazing reserve operations, I believe the Revolving Fund should be wound up without further delay. Changes to Revolving Fund operations needed to bring them within the authority provided by legislation would make the continued operation of the Fund pointless. More informative and meaningful financial reporting and accountability would be achieved by reporting all Provincial grazing reserve operations in the financial statements of the Department of Agriculture, Food and Rural Development.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1997:

Alberta Agricultural Research Institute
Alberta Dairy Control Board

Guidance to reader

The Ministry's purpose is to support community development and to help all Albertans participate fully in the social, cultural and economic life of the Province.

The Ministry delivers its programs and services through the Department of Community Development (the Department) and several foundations, funds and commissions. The Ministry's businesses are:

- Supporting the independence and well-being of seniors by providing them financial assistance under the Alberta Seniors Benefit program and by financially assisting Alberta Health to reduce the Health Care Insurance premiums for some seniors - \$165 million.
- Promoting community development and supporting the arts, recreation, sports, library and volunteer sectors - \$67 million.
- Preventing and treating addictions through the operations of the Alberta Alcohol and Drug Abuse Commission - \$28 million.
- Preserving, protecting, and presenting Alberta's unique cultural and natural history by operating 18 museums and historic sites, and the two Jubilee Auditoria, by acquiring and caring for significant historical resources and records, regulating land-based development to preserve historical resources and assisting Albertans involved in heritage preservation - \$23 million.
- Protecting human rights and providing fairness and access by working to reduce discrimination and fostering equality of all Albertans - \$3 million.

In 1996-97, the Ministry's expenditures totaled \$290 million (1995-96: \$244 million) including \$4 million for Ministerial Support Services. The Ministry has 955 full-time employees (1995-96: 730). The 1996-97 financial results and employee count are higher through addition of the Alberta Alcohol and Drug Abuse Commission and The Wild Rose Foundation to the Ministry effective April 1, 1996. On the same date, the Glenbow-Alberta Institute was dissociated from the Ministry.

Although the Ministry's largest expense is its Seniors Benefit Program, a more challenging business risk involves preserving, protecting and presenting Alberta's cultural and natural history. The risks would be more evident were the Ministry's financial statements to reflect all the assets it controls.

Without measurement of the nature and extent of the historical resources under its protection, the Ministry's performance and budget requests cannot be assessed objectively. As a matter of interest, the insured value of owned artifacts and artworks exceeds \$300 million. In the coming year, I plan to work with the Ministry in its formulation of appropriate accounting policies for its unrecorded assets.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Community Development for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry and Department financial statements.

Ministry of Community Development year ended March 31, 1997

Scope of audit work

In addition to the audit of the Ministry's financial statements, the following work was completed:

Performance measures

Carrying out specified audit procedures on the Ministry's performance measures reported in its 1996-97 Annual Report.

Year 2000 issue

A review of the Ministry's plans to address the year 2000 compliance issue with regard to its computer systems.

Department of Community Development year ended March 31, 1997

Scope of audit work

In addition to the audit of the Department's financial statements, which resulted in the reservations described above, the following work was completed:

*Historic Resources Fund
legislation amended to
allow contractors to retain
revenues*

- The Historic Resources Fund (the Fund) was contracting out the collection of admission fees at its museums and historic sites. The contractors were to use the revenues exclusively to further the purposes of the Fund. We informed the management of the Fund that the Fund's legislation required amendment to allow its contractors to retain the collected fees, and were pleased to assist Fund management in drafting the required amendments to legislation.

*Administration costs at
Foundations*

- Assisted in a review of the finance and administrative costs at four of the Ministry's Foundations, and prepared a report for a Committee established by the Minister indicating that administration costs could be reduced by combining the Foundations' accounting and administrative support services at one location.

*Freedom of Information
and Protection of Privacy*

- Assisted the Department in determining the amount of tax information it needs to deliver the Alberta Seniors' Benefit program without breaching the Freedom of Information and Protection of Privacy Act.

**Accountability of volunteer
societies****Recommendation No. 9**

It is recommended that the Department of Community Development hold Volunteer Societies appropriately accountable for the activities transferred to them at all the museums, historic sites, and the two Jubilee Auditoria.

*Transfer of revenue
collection and other duties
to Volunteer Societies*

The Department has transferred various activities at the Department's museums, historic sites and Jubilee Auditoria to Volunteer Societies. These not-for-profit societies collect the revenues from the admission fees at the museums and historic sites, and the facility rentals and commissary revenues at the Jubilee Auditoria. The revenues from the museums and historic sites are to be used by the societies exclusively in accordance with the objectives of the Historic Resources Fund. The Department expects the Volunteer Societies of the two Jubilee Auditoria to accumulate several million dollars each for refurbishing the Auditoria in time for the 100th Anniversary of the Province in the year 2005.

*Appropriate
accountability required
from the Volunteer
Societies*

To ensure that Volunteer Societies are appropriately accountable to the Minister for their activities and for the funds collected at all the locations, the Department will need to obtain and critically review the Volunteer Societies' plans and budgets and periodic financial and other accountability reports, compare the actual results to the plans and budgets, and take the action necessary to ensure that Volunteer Societies are complying with their agreements.

Alberta Alcohol and Drug Abuse Commission year ended March 31, 1997

In addition to the audit of the Commission for the year ended March 31, 1997, an audit was also done of the 1995-96 Drug Treatment and Rehabilitation cost-sharing claim with the federal government.

Ultra Vires Program - Problem Gambling

The Commission has been operating the problem gambling program since January 1994. In the year ended March 31, 1997, the Commission recorded revenues and expenses of approximately \$1.7 million relating to this program.

*Required Order in Council
issued 3½ years late*

The Alcohol and Drug Abuse Act was amended in 1994 to allow the Commission to operate programs for addictive behaviors other than alcohol and drug abuse. However, the amendment to the Act required all new programs to be designated as addictive behaviors by the Lieutenant Governor in Council. The Lieutenant Governor in Council did not approve the required Order in Council until August 13, 1997. Until this Order in Council was issued, the Commission was exceeding its authority by operating the problem gambling program.

Effect on auditor's report

The Commission has added a note to its financial statements to disclose this ultra vires activity. My auditor's report contains an additional paragraph referring to the Commission's ultra vires activity.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1997:

Alberta Foundation for the Arts
The Alberta Historical Resources Foundation
Alberta Sport, Recreation, Parks and Wildlife
Foundation
Community Development Revolving Fund
The Government House Foundation
Historic Resources Fund
Human Rights, Citizenship and Multiculturalism
Education Fund (formerly, Alberta Multiculturalism
 Fund)
The Wild Rose Foundation



Guidance to reader

The primary focus of the Ministry is to strengthen the Alberta economy and support job creation by the private sector. To achieve its goals, the Ministry works closely with other Provincial government departments, other governments and the private sector.

The Ministry includes in addition to the Department, the Alberta Gaming and Liquor Commission, the Alberta Opportunity Company and the Alberta Lottery Fund. The Ministry's total expenditure in 1996-97 amounted to \$181 million. Of this amount, \$107 million relates to the administration of lottery grants. The remaining programs focus on business and tourism development.

Critical to the success of the Ministry is the need to monitor the global marketplace, continuous assessment of the Province's investment opportunities and priorities, and to build on the Province's strengths to stimulate economic growth. During the last few years, the Department itself has undergone significant structural change in order to better address Alberta's priorities and opportunities. One such initiative, has been the privatization of the tourism marketing function in which the Ministry transferred responsibility for tourism marketing from the Department to the Alberta Tourism Partnership Corporation (ATPC).

Although the funds provided to ATPC amount to less than \$10 million annually, given issues relating to other privatizations, I have focused my review in the current year on the privatization of the tourism marketing function. I am particularly concerned that the current agreement with the ATPC does not provide for effective accountability.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Economic Development for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry and Department financial statements.

Department of Economic Development year ended March 31, 1997

Scope of audit work

In addition to the annual financial audit, which resulted in the reservations described above, the following work was completed:

- An examination of the accountability framework, including monitoring and reporting on the agreement, with the Alberta Tourism Partnership Corporation.
- Ongoing advice for the improvement of accountability, including performance measurement.

Agreement with the Alberta Tourism Partnership Corporation

Background

In 1996, the government privatized its tourism marketing function through an agreement with the Alberta Tourism Partnership Corporation

In 1996, the government privatized its tourism marketing function. An Agreement dated February 23, 1996, between the Department of Economic Development (the Department), the Department of Public Works, Supply and Services (PWSS), and Alberta Tourism Partnership Corporation (ATPC) set terms and conditions for the provision of tourism services by ATPC, and for the transfer of assets from the Department and PWSS to ATPC. The Agreement requires ATPC to promote Alberta as a tourism destination, increase economic yields to the tourism industry and government, and maximize, through leveraging initiatives, the participation of the private and not-for-profit sectors of the tourism industry in these efforts.

The agreement was developed with insufficient attention to the importance and practicalities of performance measurement

The Agreement runs for three years, during which time ATPC will receive approximately \$30 million in funds, benefits and assets.

In most respects, the Department now appears to have reasonable procedures for monitoring the activities of ATPC. Developing these procedures, and an effective accountability regimen, however, has undoubtedly been hampered by an Agreement that appears to have been developed with insufficient attention to the importance and practicalities of performance measurement.

Renegotiation of the Alberta Tourism Partnership Corporation Agreement

Recommendation No. 10

It is recommended that the Department of Economic Development and PWSS consider renegotiating the Agreement with the Alberta Tourism Partnership Corporation to improve the accountability framework and performance reporting.

Stated goals need to be articulated more clearly

The Agreement expires on March 31, 1999, but can be terminated by either party giving six months notice in writing. The Department is continually developing and improving the way that it monitors the implementation of the Agreement's requirements and time-lines. This monitoring could be considerably more effective if goals specified in the Agreement were articulated more clearly, and in ways that facilitate the measurement of their achievement.

Performance measures should be limited to those that provide key information that help the Corporation achieve agreed goals and are cost effective

It is not clear how all the performance measures relate to the specified goals, or if they are key to measuring the success of ATPC. Fewer performance clauses would reduce the administrative burden on both the Department and ATPC. For instance, presently the monthly status reports prepared by the Department contain 30 performance measures or Agreement deliverables. The administrative and clerical effort required to produce these reports is considerable. Performance measures should be limited to those that are key to program management, and for measuring success.

The leverage ratio which measures industry contributions in relation to crown contributions is key

The leverage ratio which measures the ratio of industry to crown contributions is considered a critical measure of ATPC's success in maximizing the financial contribution and participation in its initiatives of the private and not-for-profit sectors of the tourism industry. The extent of this contribution and participation is also deemed to be a reflection of ATPC's tourism promotion efforts. In view of the importance of this performance information to the continued funding of ATPC, the Agreement requires professional assurance that the information is reliable.

Unfortunately, the Agreement is unclear and consequently systems to capture the information have not been properly developed

However, the terms of reference for auditors appointed to report on compliance with certain provisions of the Agreement relating to leveraging are not clear. The Agreement should specify the assurance level required and require ATPC to establish the necessary systems to properly document the leveraging process.

The Agreement might have been improved if there had been greater involvement of departmental officials and stakeholders

When the Agreement was drawn up in 1996, very few Departmental or tourism industry representatives were involved in the negotiating process or in critically reviewing the Agreement. As a result, some of the expectations contained in the Agreement were not appropriately formulated.

The responsibility for determining tourism revenues is unclear, resulting in the Province no longer having the systems to provide this critical information

Estimation of tourism revenue in Alberta is critical for the assessment of ATPC's performance under the Agreement. However, neither the Department nor ATPC maintains the information systems to provide the needed information. The Agreement should articulate who has responsibility for this measure.

Linking performance reporting and budgeting

It is recommended that the Department of Economic Development determine the appropriate amount to be paid to Alberta Tourism Partnership Corporation based on the benefits expected to be gained through the agreement.

The annual cost of the agreement is approximately \$10 million

Under the terms of the Agreement, ATPC is paid approximately \$8.8 million per year. In addition, ATPC has the use of certain assets of the Department and PWSS, including land and buildings, as well as licenses related to physical and intellectual property. This additional ongoing government support is valued at approximately \$1.2 million annually.

The Department should determine the appropriate amount to be paid under the Agreement

I am informed that the funding to ATPC was based on tourism promotion costs incurred by the Department in previous years, and that competitive bids for providing the services were not sought prior to entering into the Agreement. The Department, therefore, has no assurance that the services could not be obtained at a better cost, or that investing \$10 million per year is a reasonable cost.

One possibility is linking funding to performance

One method of determining appropriate annual funding for the tourism services required would be to compare the net present value of the benefits expected under the Agreement with the costs of the various promotional initiatives. As initiatives are developed in each of the six tourism regions in the Province, information of this nature could be provided from each region. Funding should be provided only where the benefits exceed the costs.

Lottery Fund **year ended March 31, 1997**

Background

The Lottery Fund pays grants to support many activities

Lottery Fund grants amounted to approximately \$107 million in 1996-97. Over the past several years, Lottery Fund grants have been used to provide government support for culture, community development, agriculture, recreation, health, tourism, education and environmental protection.

The division of responsibilities between the Alberta Gaming and Liquor Commission and various ministries may complicate the issue of whether the Province is achieving the expected benefits

The Alberta Gaming and Liquor Commission has recognized an overlap with the various ministries providing services in areas receiving Lottery Fund grants, and is placing reliance on those ministries for holding grant beneficiaries accountable. This division of responsibility may complicate the issue of how to determine whether the Province is achieving the expected benefits from the use of Lottery Fund grants.

Lottery Fund accountability**Recommendation No. 11**

It is again recommended that the Minister Responsible for Lotteries improve the accountability framework for grant expenditures made from the Lottery Fund.

Alberta Treasury is examining ways of improving accountability for Lottery Fund grants

A similar recommendation was made in the 1995-96 annual report (page 19). I am pleased the government has agreed with the recommendation. I am advised that Alberta Treasury is presently examining alternative ways and means of achieving a better accountability framework for Lottery Fund grant expenditures, but to date no action has been taken.

Responsibility for accountability should be placed with the appropriate Ministry, and grant beneficiaries should report results in terms of expectations

My recommendation is directed towards improving the accountability framework at two levels: responsibility for obtaining accountability from grant beneficiaries should be placed upon the appropriate Ministry; and beneficiaries should be required to report results in terms of expectations established in their business plans.

I shall be pleased to review proposals for change and provide advise and assistance, if required.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1997:

Alberta Gaming and Liquor Commission
Alberta Heritage Foundation for Medical Research
Alberta Motion Picture Development Corporation (*The Corporation ceased operations effective March 31, 1996*)
Alberta Opportunity Company
Economic Development and Tourism Revolving Fund

Guidance to reader

Education is delivered through a network of schools within publicly funded school jurisdictions

The mandate of the education system in Alberta is to ensure that all students have the opportunity to acquire the knowledge, skills and attitudes needed to be self-reliant, responsible, caring and contributing members of society.

Education is delivered primarily through a network of schools within publicly funded school jurisdictions. Authority over these jurisdictions is given to publicly elected school boards. Schools are responsible for providing instructional programs that enable students to meet Provincial completion requirements and prepare them for entry into the workplace or post-secondary studies. The Department of Education provides approximately \$1.4 billion of financial assistance to schools to supplement the \$1.2 billion raised from property assessments (distributed through the Alberta School Foundation Fund).

The Ministry provides provincial direction to school boards and reports on the performance of the education system

The Minister of Education is responsible for developing curriculum, assessing student performance, and certifying teachers. The Ministry provides Provincial direction to the school boards for the delivery of education and reports to the Legislature and the public on the performance of the education system. In this regard, I continued to provide advice on Ministry measures which are presented in the Ministry's annual results report. The Ministry has demonstrated a strong commitment to performance measurement and I encourage continued improvement.

I have concerns over the lack of evidence to support funding paid for high school course completion

As part of the funding framework, the Department provides high school funding based on course completion by students. The Department is currently examining additional performance incentive alternatives. One of my recommendations addresses the lack of evidence obtained by the Department to support the funding paid for high school course completion. If funding is based on some measure of performance, the performance should be defined and measured accurately, and should be verifiable.

To help meet its goals, the Department obtained legislative authority for the creation of charter schools

One of the Department's goals is to provide parents and the community the opportunity to be involved in the governance and delivery of a restructured education system. Another of the Department's goals is to focus education on what students need to learn and to ensure high standards are established, communicated and achieved. In order to meet

these goals, the Department has initiated a number of strategies, one of which is providing the legislative authority for the creation of charter schools. The School Act currently permits the Minister to approve the establishment of fifteen charter schools. My recommendations regarding charter schools relate to the establishment of an effective accountability framework.

Significant issues raised by the auditors of school boards will be incorporated into my work in the coming year

S.19(3.1) of the Auditor General Act requires me to report on the results of my examinations of school boards. Except for Northland School Division, I am not the auditor of any school boards. Where I am not the auditor of school boards, the Auditor General Act requires the auditors to provide me with a copy of the audited financial statements and management letters containing observations arising from the audits. My staff have reviewed the auditors' management letters and will incorporate the more significant issues into the planning of our work for the coming year. My staff has also continued to meet with various school boards and visit schools across the Province to obtain a better appreciation of current issues within the public education system in Alberta.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Education for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry and Department financial statements.

Department of Education year ended March 31, 1997

Scope of audit work

In addition to the annual financial audit of the Department, which resulted in the reservations described above, annual financial audits were also conducted for:

- Alberta School Foundation Fund, and
- Education Revolving Fund

At the request of the Department, my staff also reviewed performance measures of the Learning Resources Distributing Centre (LRDC) and participated in a workshop as part of management's annual planning session. LRDC management were provided with a number of alternative methodologies for developing a comprehensive performance measurement framework.

In order to promote sound governance in the education sector, my staff and I made a presentation on business ethics at the Association of School Business Officials of Alberta (ASBOA) annual conference. I was also invited to speak to the Conference Board of Canada and at a regional meeting of the Alberta School Board Association on governance and accountability in the education sector.

Members of my staff and I participated in the Institute of Chartered Accountants of Alberta Task Force on School Board Reporting in Alberta, which reconvened during the past year to provide clarification on proper accounting treatment and financial statement presentation for certain issues. Alberta school jurisdictions were encouraged to adopt full accrual accounting of revenues and expenses in their 1996 fiscal year financial statements. For the year ended August 31, 1997, school jurisdictions are required to implement full accrual accounting, including the amortization of capital assets.

A member of my staff was invited to participate on a review team established by the Minister of Education to study the operations of the Calgary Board of Education and the funding of its schools. I advised Ministry officials that my Office would be prepared to participate if it was agreed that the following conditions were met:

1. that the Office of the Auditor General would be identified as participating and that it would be understood that various representatives of the Office would participate as circumstances dictated, from time to time, and
2. that the Office of the Auditor General would be identified as an ex-officio non-voting member of the review team.

I withdrew my involvement in the Calgary Board of Education Review Team because the conditions for participation could have compromised my independence

I considered these conditions to be necessary and appropriate for my Office's participation in the review in order that the Office and I would not be placed in a position which could compromise the independence of the Office of the Auditor General. However, the Minister did not agree to these conditions. Consequently, I withdrew my Office's support for the Calgary Board of Education Review Team.

In addition to these financial audits, my staff carried out an examination of the systems used by the Department to monitor the operations and evaluate the success of charter schools.

Charter School Accountability - background

Charter schools are public schools that provide a basic education in a different or enhanced way to improve student learning

Charter schools are public schools that provide a basic education in a different or enhanced way to improve student learning. Each charter school is created upon the approval of a charter, which is an agreement between a school board or the Minister of Education and the individual or group establishing the charter school. Charter schools receive the same basic instruction funding per student as school boards. During the 1996-97 school year, eight charter schools were operating in Alberta. These are the only charter schools currently in existence in Canada.

The Department should establish an accountability framework for charter schools that encourages innovation and benefits the entire public education system

Charter schools are intended to expand the range of educational services available in the public school system. There is an expectation that these educational services will be different from what is available locally. The Province has indicated that charter schools must demonstrate the potential to improve the students' learning. The Province has also acknowledged that the charter school initiative is an opportunity to share successful practices with other public schools in Alberta. Continuous innovation in public education is required to maintain a successful and competitive education system. The charter school initiative is intended to promote innovation across the Province. The Department should establish an accountability framework for charter schools that encourages innovation and that, over time, benefits the entire public education system.

The following recommendations provide direction on strengthening the accountability framework for charter schools.

Charter school planning and reporting**Recommendation No. 12**

It is recommended that the Department of Education ensure that each charter school's business plan identifies mandate-related performance measures, together with targets and strategies, that will be used to demonstrate the improved results occurring from innovative learning practices. It is also recommended that the business plan contain the criteria against which the renewal of the charter will be evaluated.

Mandate-related performance measures should be developed

In order to make ongoing improvements to the operations and results of each charter school, it would be useful to include mandate-related performance measures, together with targets and strategies, in its business plans. The mandate-related measures should include measures that demonstrate enhanced or improved learning.

Charter schools do not identify measures to demonstrate enhanced learning

Commencing with the 1997-98 school year, each charter school is required to submit business plans to the Department annually. This is consistent with the planning requirements of all school jurisdictions in the Province. However, the charter schools' business plans do not identify measures that would demonstrate enhanced or improved learning as a result of learning techniques that are different from those offered in the public schools. Once established, these measures should be reported in their annual results reports.

Criteria for renewal of charters need to be established

The identification of mandate-related measures would help with the formal evaluation of charter schools. The Charter Schools Regulation requires two formal evaluations to be completed prior to renewal of a charter. No evaluations have been completed to date, although two charter schools will be commencing the final year of their original terms in September 1997. The Department and charter schools have not yet determined the expectations and content of the evaluations. If an appropriate planning process had been in place since the beginning of the charter term, both the Department and the charter schools would have had a clear understanding of the criteria against which the renewal of the charter should be evaluated. The Department should ensure that expectations are clearly outlined at the beginning of the

term. Two formal evaluations, as well as the ongoing review of results, should occur over the entire term of the charter so that any concerns can be resolved on an ongoing basis.

Charter board governance

It is recommended that the Department of Education provide guidance and support to charter school boards to assist the boards in carrying out their roles and responsibilities.

Each charter school is governed by a board of directors

Each charter school is governed by a board of directors, comprised of parents, teachers and community members who are elected or appointed by the organization that applied for the charter. The charter board is accountable to the Minister or local school board, whoever established the charter. The Minister requires that charters include a definition of the relationship between the organization, the charter board, school administration, teachers, students, and school council.

Support should be provided to the charter boards to ensure they effectively discharge their duties

For the boards of charter schools to be successful in their governance responsibilities, it is important that the Minister ensure board members have the expertise necessary for their positions. Since a charter school board has significant authority over how a school is run, the Department should provide support to the charter boards to ensure that each charter board's primary focus is the educational interests of the students in the school. Principals of charter schools have expressed a concern to my staff about the lack of training of board members. My staff were also informed that one of the boards was having difficulty achieving a quorum. Departmental guidance with respect to the composition of boards, the minimum term of service, and training of board members would help boards in discharging their duties effectively. For example, the Department could act as a resource for charter boards by providing information on training and the exchange of ideas between various boards.

Cost presentation

In my 1994-95 and 1995-96 annual reports (pages 94 and 79 respectively), I recommended that the Department of Education require school boards to include performance information on the various instructional programs in their annual education results reports, and to include information in their financial statements that links costs with performance. The Department is continuing to identify areas where costs can be linked with performance measures.

School boards should continue to work towards developing appropriate cost allocation methods

School boards are required to include in their financial statements information on instruction costs for programs such as English as a second language, enhanced opportunities and instruction to the severely disabled. The boards should continue to work towards developing appropriate cost allocation methods for all types of costs so that the costs associated with achieving results, such as the average cost of a student successfully completing the English as a second language program, can be reported accurately.

Alberta School Foundation Fund year ended March 31, 1997

Credit enrollment units as basis for funding

Recommendation No. 13

It is recommended that the Department of Education ensure that all requirements for credit enrollment unit funding are met before funding is provided to the school boards.

Basic instruction funding for senior high school students is based on course completion

Basic instruction funding for senior high school students is provided based on credit enrollment units (CEUs), which are assigned when courses are completed. A course is considered completed for funding purposes when:

1. a student has received a passing mark of 50 percent or more in a course, or
2. when a student has received a mid-term mark, has earned a mark of 25 percent or better in the course and has completed at least 50 percent of the course content or attended at least 50 percent of the classes in the course.

However, the Department currently provides funding automatically for every student who has achieved a mark between 25% and 49% because it is very difficult to establish if 50% of the course content has been completed or if the student attended at least 50 percent of the classes.

The Department should ensure that funding for high school students is only provided when all of the requirements have been met

Currently the Department is not able to ensure that funding of CEUs is only provided when all of the requirements have been met. Although the Department conducts field reviews of school boards, Department staff indicated that inadequate documentation was available at the school boards to confirm completion of course content or attendance for the 1996-97 school year. It is my understanding that a new requirement for maintaining adequate documentation will become effective September 1, 1997, which should help to mitigate the risk of inadequately supported funding claims.

Other entities

Financial audits of the following were also completed:

Education Revolving Fund - year ended March 31, 1997

Northland School Division No. 61 - year ended
August 31, 1996

Teachers' Retirement Fund - year ended August 31, 1996

Guidance to reader

The Ministry of Energy comprises two organizations, the Department of Energy and the Alberta Energy and Utilities Board. In addition, Alberta Oils Sands Technology and Research Authority (AOSTRA) and Alberta Petroleum Marketing Commission (APMC) are managed by staff of the Department.

The Department of Energy develops, implements, and administers policies related to the energy sector which includes the hydrocarbon, electric, and other mineral industries. In this capacity, the Department advocates the orderly exploitation of Provincial resources by the private sector. Accordingly, the Department has defined its five core businesses as:

- disposition of energy and mineral resources,
- collection of the Crown's energy and mineral revenue,
- policy analysis and advice,
- energy research, and
- external relations.

For 1996-97, the Department collected \$4.4 billion in government revenues. Its expenses were \$71 million; and its manpower complement was about 500 during the year.

The Alberta Energy and Utilities Board plays a conservation and protection role, regulating the industries mentioned above. The Board's five core businesses are:

- adjudication and regulation,
- applications,
- surveillance and enforcement,
- information and knowledge, and
- managing the business.

The Board's 1996-97 revenues were \$62 million, its expenses \$59 million, and its manpower complement about 680.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Energy for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry and Department financial statements.

Department of Energy year ended March 31, 1997

Scope of audit work

In addition to the annual financial audit of the Department of Energy, which resulted in the reservations described above, the following work was completed:

- My staff reviewed the Ministry's participation in the government's overall Integrated Resource Management initiative. This work was coordinated and performed by my staff working in several other Ministries. The results of this work are reported in the Environmental Protection section of my Report.
- My staff reviewed the Department's plans to address the year 2000 issue with regard to the Department's many automated systems.
- My staff participated in the Ministry's Performance Measurement initiatives. At the invitation of the Department, my staff performed a review of the Performance Measurement and Reporting Project.
- The Departments of Energy and Environmental Protection share and jointly administer a file room which provides both Departments with filing and mail service. At the invitation of the two Departments, my staff reviewed the purchasing controls and procedures in place in this shared file room function.

**Mineral Revenues
Information System**

In my last two Annual Reports, I commented on the Department's MRIS Project and royalty simplification initiatives

MRIS now produces invoices; however, its development cost was high and its functionality is still being enhanced

The Department is still working to achieve its gas royalty simplification objectives

In my 1994-95 Annual Report (page 101), I first commented on the Department's Mineral Revenues Information System (MRIS) Project. The Project was intended to simplify gas royalty calculation, invoicing, and collection. The mechanism for this simplification was to be the MRIS system. My work resulted in two recommendations. First, it was recommended that the Department reassess the risks associated with continuing MRIS development, and second, that the Department assess its success in achieving its simplification objectives. In my 1995-96 Annual Report (page 85), I again commented on the progress of the MRIS Project. I concluded by repeating my two recommendations and noted that I would continue to monitor the progress of the MRIS Project.

MRIS is now operational from the point of view of monthly invoicing. The Project was able to meet the development budget and timetable that I reviewed for last year's Annual Report. As at the 1996-97 year end, development costs for the MRIS project had reached \$37 million. In August 1997, the Department declared the production month of June 1997 to be the "operational month", as required in section 15(6)(a) of the Natural Gas Royalty Regulations. This means that, starting with the June production month, monthly gas royalty invoices and statements of account will be current and all prior period balances, including interest, will be due and payable. As MRIS is now successfully producing invoices, my first recommendation has, in the main, been satisfied. However, future releases of MRIS will address aspects of functionality that had been intended for the system but which have not yet been developed.

In June 1997, the Minister of Energy reiterated the Department's commitment to royalty simplification. He noted that the Department "will be striking ... a working group with industry to tackle royalty simplification ... and we'll streamline now not later". His comments applied not only to gas royalty simplification, but also to the Department's other royalty and tax regimes. I will continue to monitor further royalty simplification and system development initiatives within the Department.

Alberta Oil Sands Technology and Research Authority
year ended March 31, 1997**Financial management**

It is recommended that management improve the administration of the Alberta Oils Sands Technology and Research Authority's projects, including the routine monitoring and reporting of commitments and transactions, as well as the production of the annual financial statements.

The administration of the Authority's research and development projects can be improved.

Monitoring of Underground Test Facility transactions need to be improved

The Authority's largest project, the Underground Test Facility (UTF), is operated on behalf of the Authority and other participants by an external manager. The Authority needs to improve its monitoring of UTF transactions. For example, the Authority needs to ensure that the manager is purchasing bitumen produced by the UTF in accordance with an approved purchasing agreement. Without improved controls, the Authority cannot be sure it is receiving the correct proceeds from the sale of bitumen.

Financial information needs to improve

The administration of at least three of the Authority's smaller projects should also be improved. The problems include overdue receivables, unrecorded payables, and transactions recorded in the wrong accounting periods. Improved monitoring and reporting of financial and other performance information routinely throughout the year would help to identify these situations and would lead to correction on a timely basis. This should also improve the finalization of the Authority's annual financial statements which were delayed this year in part by the number of adjustments that had to be processed.

Business plan

It is recommended that the Alberta Oil Sands Technology and Research Authority's management address the growing fund balance with a reasonable and achievable business plan.

Significant increase in the Authority's fund balance

There has been a rapid increase in the Authority's fund balance. Over the past three years, the balance has risen by \$21.3 million. In the first of those three years, the budget called for revenues equaling expenditures; in the following two years, expenditures were budgeted to exceed revenues.

However, in each year, revenues have exceeded expenditures by sizable amounts. In addition to the operating surpluses of the Authority, the Department also transferred \$1.3 million from the Department's unexpended budget into the Authority at the end of 1996-97. The result is a fund balance of \$21.778 million and a cash balance of \$17.63 million as at March 31, 1997.

A new plan is being developed to address the growing fund balance

According to the three-year plan published in the government's *Budget '97*, the existing fund balance would not be significantly drawn down over the next three years. I understand that a new three-year budget is being prepared which would reduce the fund balance to near zero by the end of 2000-01. However, to meet this target, expenditures would have to significantly increase from their current level for each of the three years covered by this plan. As expenditure levels have not met budgeted expectations in the past three years and given the industry's reduction in research activity, it is not certain that such levels of spending could be achieved in that period of time. On the other hand, a concerted effort to meet those expenditure targets would increase the risk that research quality might suffer under the pressure to expend available funds.

Highest rates of return should be obtained on unexpended funds

At present, the Authority's funds are invested in the Consolidated Cash Investment Trust Fund, which is a low risk short term money market fund managed by the Treasury Department. Based on its cash flow needs and tolerance to fluctuations in return, the Authority could further diversify the fund, thus increasing the expected return without substantially increasing the risk of loss of principle over the longer term.

Other entities

Financial audits of the following were also completed:

Alberta Energy and Utilities Board - year ended
March 31, 1997

Alberta Petroleum Marketing Commission - year ended
December 31, 1996

Guidance to reader

The Ministry comprises the Department, the Tire Recycling Management Board, the Natural Resources Conservation Board, the Environmental Appeal Board, the Alberta Special Waste Management Corporation, and related regulated funds. The mission of the Ministry includes protecting, enhancing and ensuring the wise use of Alberta's renewable natural resources on a sustainable basis. This includes sustaining Alberta's forests, public lands, fish, wildlife, parks, and the quality of the air, land and water. The Ministry's goals include achieving an appropriate balance between development and preservation (sustainable development), thereby promoting a strong economy and the preservation of a clean and healthy environment today, and for future generations.

Sustainable economic development and sustainable natural resources are inter-related concepts. For example, Alberta's fourth largest industry, forestry, employs 39,000 people and contributes approximately \$2.5 billion annually to Alberta's economy. To ensure that Alberta's forests are managed on a sustainable basis, legislation requires that harvested lands be reforested. Similarly, sustaining healthy fish and wildlife populations is vital to the Province's recreational and commercial hunting and fishing industries. Hunting, fishing and wildlife viewing contribute \$1.4 billion annually to the Provincial economy. To ensure sustainability of this valuable resource, the Department monitors industrial emissions and air and water quality. Also, the Environmental Protection and Enhancement Fund provides funding for the protection and enhancement of habitats including fighting forest fires and research in forest management.

Major environmental issues associated with sustainable development include depletion of natural resources and loss of habitats (including wetlands) resulting in decreased biodiversity and the risk of increased health costs due to air, land and water pollution. To achieve the Ministry's goals, decision makers need to know the costs of services offered by the Ministry and need systems for monitoring and reporting these costs. The following comments relating to Activity Based Costing, the Enhancement Fund, Integrated

Resource Management, and the Alberta Special Waste Management Corporation highlight some of the Ministry's challenges and successes.

Department of Environmental Protection

year ended March 31, 1997

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- A review of the Pine Ridge Forest Nursery's financial statements at March 31, 1997, as they related to a Request for Proposal in preparation for privatization.
- Advice to two committees which provide direction to the Department's Activity Based Costing initiative.
- An examination of the Department's Land Valuation project to identify and account for land owned by the Department.
- A review of the Department's preparedness regarding year 2000 compliance for automated information systems.
- A review of the progress of the Integrated Resource Management framework.
- Application of specified audit procedures to the Ministry's Performance Measures, which appear in the Ministry Annual Report.
- A review of the purchasing controls and procedures in place in a shared file room. The Departments of Energy and Environmental Protection share and jointly administer a file room which provides both Departments with filing and mail service. At the invitation of the two Departments, my staff reviewed the purchasing controls and procedures in place in this shared file room function.
- An examination of the Ministry's preparedness to issue audited Ministry and Department financial statements for the year ending March 31, 1998.

**Integrated Resource
Management - Background**

Integrated Resource Management (IRM) is a comprehensive approach to resource management decision making. It recognizes that the use of a resource for one purpose can affect the use and management of other resources. It involves the integration of decisions, policies, programs and activities so the long-term benefits to society are optimized, and conflicts between competing stakeholders are minimized. Businesses such as agriculture, oil and gas, and forest companies and the public and other levels of government are impacted by resource allocation decisions. Sustaining Alberta's natural resources and environment depends on cooperation and coordination amongst the various stakeholders.

*A Province-wide
integrated policy direction
to resource management
was lacking*

The philosophy for managing resources has evolved from managing a single resource to managing for sustainable development while balancing multiple demands. In the 1970s, IRM began to evolve to address conflicts between stakeholders. This system relied on Integrated Resource Plans covering specific tracts of public land to guide the use of public land and resources. However, by the 1990s, resource planning at the Provincial level still lacked a Province-wide integrated policy direction. Individual plans were taking too long to prepare, and stakeholders were searching for more effective ways to resolve issues and differences. In many cases, plans took five years or longer to complete, and by the time they were completed one resource could already have been allocated at the expense of another.

For example, the Ministry of Agriculture wants to double primary and secondary agricultural production and this could have a negative effect on the resource management and protection goals of Environmental Protection.

*Steps are being taken to
develop a framework for
integrated resource
management*

In 1995, the Sustainable Development Coordinating Council, an inter-departmental group of Assistant Deputy Ministers, launched a process to improve resource planning and management. Presently, a Director's Working Committee, whose members are drawn from the Departments of Agriculture, Food and Rural Development, Energy, and Environmental Protection, is developing the *Framework for Integrated Resource Management* and integrating Provincial natural resource policies. This document will propose Province-wide policies to guide IRM decision making.

**Integrated Resource
Management accountability
concepts**

*Both the initiative and the
framework should include
performance measurement*

It is recommended that the Sustainable Development Coordinating Council incorporate accountability principles, including performance measurement into the Integrated Resource Management strategies and plans.

I believe that the IRM initiative will be an important advance in resource planning for the Province. Clear policy direction at the Provincial level will help to ensure consistent and fair decision making at the local level. However, the draft documents that my staff have reviewed do not yet incorporate performance measurement concepts. The concepts should be applied to the IRM initiative itself, as well as to the IRM regime, which evolves as a result of the initiative. Steps within the IRM initiative to address accountability will clarify the assignment of responsibility for specific tasks to specific parties. Performance measurement will guide participants and decision makers to focus on critical aspects of the initiative, and will provide feedback on whether programs are successful. I will be reviewing the progress of the IRM initiative as it evolves.

Activity Based Costing

*The Ministry is
implementing systems to
measure the cost and
effects of outputs*

The Ministry is taking a significant step to enhance management information on costs and performance measures. During the year, the Athabasca District Office piloted an Activity Based Costing project. Activity Based Costing is a methodology that measures the cost of activities to determine the full cost of outputs. Activity Based Costing can also link goals, strategies, and performance measures.

*District management
information has improved*

This approach has enabled staff at the District Office to link their costs to both activities and product services. One goal of the District Office is to manage the forest resource for environmental quality and sustainable development. The product services identified included approving and monitoring dispositions, forest management planning and reforestation. In the case of reforestation, activities include planning, regenerative surveys and herbicide treatments in terms of hectares successfully restocked. Costs are linked to each activity and through them to the product service reforestation. This information is useful to determine if reforestation is keeping pace with harvesting, which is the basis for forest sustainability. Also, the cost to reforest by

hectares is important information for the Revolving Fund which collects reforestation levies in advance of expenditures.

Department is to be congratulated

Based on the results of the pilot project, the initiative has been extended to cover the Regional Office. I congratulate the Department on this initiative and encourage the continued linking of cost of outputs to results.

Environmental Protection and Enhancement Fund

Appropriate fund balance

It is recommended that the Environmental Protection Enhancement Fund be examined in order to determine the appropriate fund balance necessary to meet its risk management objectives.

The Fund was established as a risk management fund

The Environmental Protection and Enhancement Fund was established in 1993 to help manage the cost of environmental emergencies, including forest fires, droughts, floods, spills and cleanups. Given the unpredictable and potentially significant costs that can be involved in such emergencies, and to avoid the use of Special Warrants, it was decided that a risk management fund was necessary. Section 28(8) of the Environmental Protection and Enhancement Act authorizes the Provincial Treasurer to advance money required for the purposes of the Environmental Protection and Enhancement Fund up to, but not exceeding, \$100 million.

In the resulting structure, expenditures for costs related to (for example) forest fire fighting are initially paid by the Enhancement Fund. Costs to a maximum of \$37.8 million (budgeted) are recovered from the General Revenue Fund. In years when the fire hazard is low, and the fire fighting costs do not exceed the maximum recoverable from the General Revenue Fund, the Enhancement Fund incurs no cost.

Revenue is from timber royalties

Revenues for the Fund come primarily from new and incremental increases in timber royalties. Each year, a base royalty amount accrues to the General Revenue Fund; any timber royalties in excess of the base are transferred to the Enhancement Fund. Like the costs, the revenues of the Enhancement Fund are difficult to predict.

Fund balance has grown rapidly

Since 1993, the Enhancement Fund balance has grown substantially, and at March 31, 1997, totaled \$192.4 million. Revenues have exceeded expectations while costs have fallen far short of budget. The existing three-year plan for the Fund shows revenues and expenditures at the levels budgeted in past years. Based on those budgets, the Fund balance will continue to increase at its current rate.

Balance of the Fund needs to be reviewed

The legislation governing the Fund does not prescribe a cap on the Fund balance, but it does allow the Provincial Treasurer to transfer money, which exceeds the requirements of the Fund, into the General Revenue Fund. The Ministry has not determined how much money the Fund needs. It is important to ensure that all funds available to the government are used to maximum effect. The Ministry should review its requirements in light of the rapidly growing Enhancement Fund balance.

Alberta Special Waste Management Corporation (ASWMC) year ended March 31, 1997

In my 1995-96 annual report (page 100), it was recommended that arrangements be made, and responsibility be assigned, for monitoring compliance by BOVAR with its commitments, and generally ensuring that the Province's interests are protected as they relate to the Agreement to dispose of the interest in the Swan Hills Joint Venture.

My staff reviewed progress on this recommendation during this year's audit. ASWMC staff have prepared an extensive *Summary of Notices and Other Arrangements Between the Parties*, a checklist which assigns monitoring responsibilities to appropriate parties. During 1996-97, ASWMC staff played the lead role in the program to monitor BOVAR's compliance.

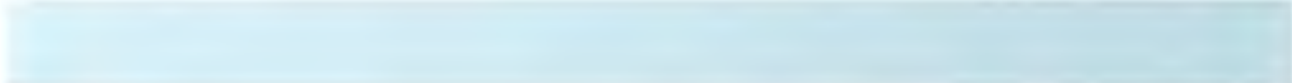
While I am satisfied with progress to date, I will continue to review activities after the transfer of responsibilities to the Department

However, legislation which received Royal Assent on May 29, 1997 will (upon proclamation) repeal the Special Waste Management Corporation Act. As a result, the Crown will assume the monitoring responsibilities. I understand that the Department of Environmental Protection will provide the necessary resources. While I am satisfied with progress to date on my recommendation, I will continue to review activities after the transfer of responsibilities to the Department.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1997:

Environmental Protection Revolving Fund
Natural Resources Conservation Board
Tire Recycling Management Board, and
Kananaskis Improvement District for the year ended
December 31, 1996



Guidance to reader

The mandate of the Ministry of Family and Social Services is to help families be responsible, help adults be independent and keep children safe.

The Department provided services and funding of approximately \$1.4 billion in the year to March 31, 1997. This amount includes expenditures for three major program areas as follows:

Income Supports	\$693 million
Services to Persons with Disabilities	\$259 million
Services to Children and Families	\$235 million

The Department's major strategies focus on converting welfare into a more active employment program, assisting individuals to maximize their potential towards independence and developing community based delivery systems for services to children, and persons with disabilities.

Income Supports

One of our main concerns in this program over many years is that payments can be made to persons who are ineligible. The systems to prevent and detect incorrect payments have improved over the last few years and the Department regards the amount of incorrect payments to be at a tolerable level. However, as in previous years, the documentation to support clients' circumstances continues to be incomplete. The Department has a good system to identify these irregularities, after they occur, and is now focusing on training initiatives to address the problem. The Department should continue to pursue this course of action until deficiencies in documentation are at a tolerable level.

A second area of concern is related to the impact of employment and other initiatives designed to reduce the numbers of people on welfare. I deal more fully with that later in this report. The Department needs to improve the accountability framework related to its initiatives.

Services to Persons with Disabilities

During the year ending March 31, 1998, six regional boards, a foundation, a Provincial authority and a facility board are expected to be delivering services to persons with disabilities. The main risk in this area is that inadequate governance structures will impair service delivery during and after the transition to the new delivery structure. My staff has been assisting the Department by providing comments on the Persons With Developmental Disabilities Community Governance Act passed in June 1997. Further, we have been actively involved in a review of the accountability process for the Individual Funding Program for persons with disabilities. In the past, we have had concerns about the Department's monitoring of these payments.

The Department needs to ensure that the new boards have appropriate monitoring procedures. An examination of this area by my staff will be completed in 1997-98. We will continue to work with the Department and the new boards to ensure proper governance structures are in place and that adequate performance measurement is established. The present performance measures still need some refinement and the systems to capture the information need to be finalized.

Services to Children and Families

A number of authorities to provide services to children and families are expected to commence operations in the period to March 31, 1999.

My staff has participated on the services to children and families funding model working group and I have provided Departmental management written advice with respect to the accountability, monitoring and governance aspects of the proposed funding model.

The appropriateness of funding allocations and implementation of adequate governance and reporting structures are the major issues that the Department is facing with regards to the regionalization of these services. My staff will continue to monitor developments and provide advice in 1997-98.

Aboriginal Affairs and the Metis Settlements Transition Commission were transferred to Federal and Intergovernmental Affairs on April 9, 1997.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Family and Social Services for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry financial statements.

Scope of audit work

In addition to the annual financial audit, which resulted in the reservation described above, the following work was completed:

- An examination of the systems used to select a contractor for the Michener Centre laundry.
- An examination following a complaint directed to the Office of the Auditor General regarding the appropriateness of services provided to three children receiving services from the Department.
- My staff continue to offer assistance and provide suggestions in the development of appropriate performance measurement for inclusion in the Department's annual reports.
- An examination of systems used to manage contracts relating to the Integrated Training Pilot Program.

**Supports for Independence-
Program results**

In my 1994-95 annual report (page 116), I recommended that the Department determine the impact and cost of the various initiatives it has implemented to reduce the Supports for Independence caseload. I was concerned that the Department has little information on what happens to people no longer on welfare. As a result of my concerns, the Department initiated a series of research studies aimed at evaluating the impact of the welfare reforms it made in 1993. Two of those reports have already been made public, and the last report was still in draft form when this report was being prepared. The draft contains useful information on what has happened to people who are no longer welfare clients. It also contains much of the information needed to analyze and conclude on the results of the Department's employment initiatives. The Department should finalize the report as soon as possible and complete the evaluation of welfare reform by analyzing the costs and benefits.

Accountability within certain employment initiative programs requires improvement as can be seen from the following two recommendations which arise out of an examination of systems used to manage contracts relating to the Integrated Training Pilot Program. This Program is administered by the Department of Advanced Education and Career Development. Further details on the background of this examination can be found on page 46 in the Advanced Education and Career Development section of this report.

**Management of contracts-
referrals to training
programs**

It is recommended that the Department of Family and Social Services ensure that written approval is provided by an Employment and Client Support Services Worker for all clients who are referred to the Integrated Training Pilot Program.

*Clients must be referred
by an Employment and
Client Support Services
Worker*

In order for a Supports for Independence client to be trained in the Integrated Training Pilot Program, a referral is required from an Employment and Client Support Services Worker of the Department of Family and Social Services. This referral needs to be obtained to indicate that the client has been assessed as being able to benefit from this type of training.

Some clients may have been inappropriately referred

There are indications that some of the clients referred to the Integrated Training Pilot Program may have been inappropriately referred to this type of training. In this regard, some referrals were obtained over the telephone by the service provider and were not followed up in writing. Also, some of the telephone referrals were made by Financial Benefit Workers from the Department of Family and Social Services who may not be qualified to assess the suitability of clients for training of this nature.

Management of contracts- Performance measurement

It is recommended that the Department of Family and Social Services ensure that timely and relevant information is provided to Employment and Client Support Services Workers to enable them to determine the employment progress of clients they have referred to the Integrated Training Pilot Program.

Staff of the Department were concerned that the training programs may not suit their clients' needs

During my examination, staff at a Calgary district office of the Department of Family and Social Services indicated that although they were comfortable with the concept of the Integrated Training Pilot Program, they had concerns about whether the training programs offered and occupations selected were well suited to their clients' needs. As a result, they did not refer clients to the Program who would have benefited from the Program. These concerns translated into reduced referrals to the Program.

Data indicated that a significant number of graduates obtain permanent employment

However, the figures reported by the service provider and accepted by the Department indicate that 70% of total graduates from the two programs were successfully employed for at least three months. Also, the results of an independently conducted survey of employers indicated that 41.8% of the graduates placed by the service provider in the year ended March 31, 1996, were still employed with the same employer at September 1996.

Periodic feedback to front-line workers would be beneficial

The concerns of the front-line workers of the Department of Family and Social Services could perhaps be alleviated if they were to receive periodic useful feedback on the employment progress of the clients they refer to the Integrated Training Pilot Program.

Michener Centre Laundry Contract

At the request of the Premier, this Office completed an examination to determine whether the process used to select a contractor for the Michener Centre laundry was appropriate and equitable.

Background

In July 1995, a Departmental selection committee requested proposals for off-site laundry services. These proposals were opened and made public in November 1995. Prior to the awarding of the contract, the Minister of Labour wrote to the Minister of Family and Social Services expressing his concern that proposals had only been requested for the provision of off-site laundry services. The Department decided to request new proposals to include the on-site delivery of laundry services. Finally, the two best on-site and off-site proposals were rated and presented to the Minister of Family and Social Services for a decision.

Conclusions

The tendering process was flawed

The method used to tender for laundry services at the Michener Centre included most of the elements of an appropriate tendering process. In two respects, however, the process was flawed. Firstly, insufficient efforts were made by the selection committee at the outset to determine whether the cost estimates for necessary upgrades to the Michener Centre laundry were reliable. Preliminary verbal estimates obtained from the Department of Public Works, Supply and Services, at that time, were that \$4 million to \$8 million would be needed to up-grade the facility. The cost of the necessary upgrades was subsequently estimated at \$1.1 million. This led to the decision by the selection committee to seek only off-site proposals which, in my view, was unwise. And secondly, a more complete list of cost adjustments should have been used to compare on-site proposals with off-site proposals.

There were advantages for proponents responding to the second request

As to the equity of the tendering process, an unfortunate aspect of the chain of events that culminated in the laundry contract being awarded was that two different requests for proposals were issued. In my view, the proponents who submitted proposals pursuant to the second request for proposals had an unfair advantage because information about the previously submitted off-site proposals was available to them prior to the submission of their proposal.

**Responsibilities and process
for contracting****Recommendation No. 14**

It is recommended that when tendering for major contracts, the Department of Family and Social Services provide the selection committee with a written mandate clearly specifying:

- **the goods or services to be acquired, or the needs that the goods or services are required to address,**
- **the roles and responsibilities of the selection committee and of other individuals involved in the selection and approval of an applicant,**
- **any conditions or constraints that must be complied with, the bases for imposing those conditions or constraints, and the selection committee's responsibilities for verifying those bases, and**
- **direction as to the process that is to be followed in selecting an applicant and awarding the contract.**

*A written mandate helps to
communicate
understanding*

When governments enter into major contracts for the acquisition of goods or services, the tendering process must be, and must be seen to be, appropriate and equitable. Careful planning, including the identification and communication of all related conditions and policies, can help to ensure an appropriate and equitable process. Documenting the process to be used, together with related conditions and policies, in a written mandate is a useful way of demonstrating the quality of the planning and of communicating agreement.

*In this case there was no
written mandate*

As indicated earlier, the selection committee agreed at the outset with senior Departmental officials on the tendering process to be used and related conditions. One of those conditions was that the committee would seek only off-site proposals. The committee, however, was not given, or did not prepare for approval, a written operating mandate.

A written mandate may have resulted in more consideration being given to the costs and viability of both on and off-site solutions

I believe that documenting the selection committee's authorities and responsibilities in a mandate would have been good practice. It would also have reinforced the importance of proper accountability and governance. And while I cannot conclude that a written mandate would have changed the decision at the outset to seek only off-site proposals, I believe that the rigor involved in documenting a mandate could well have resulted in more consideration being given to the costs and viability of an on-site solution. There can be no doubt that issuing a second request for proposals with different conditions, after the first proposals had been made public, increased the time and cost of the process.

Michener Centre Laundry Contract - Cost Comparisons

It is recommended that the Department of Family and Social Services take into account all related costs and circumstances when devising methods for adjusting contract proposals for comparability and rating purposes.

Factors taken into account for comparison between on and off-site contracts

Requests for proposals often allow for alternative proposals to meet the prescribed needs. This was the case with Michener Centre's second request for proposal, which invited proposals for both the on-site and/or off-site provision of laundry services. In order to rank the resultant proposals, the selection committee devised a weighting method to adjust on-site proposals so that they could be compared with and rated against off-site proposals. The adjusting factors identified and used by the selection committee were:

- estimated capital cost of required plant up-grades,
- estimated capital cost of required equipment up-grades, and
- estimated ongoing maintenance, utility and laundry support costs.

The factors were not properly determined

The first two adjusting factors represent anticipated capital expenditures to be incurred by the Province during the five year life of the contract. However, no allowance was made for the timing of these expenditures, the unamortized or disposal value at the end of the five years of the assets to be acquired, or any continued amortization of Michener Centre laundry equipment on hand when the contract commenced.

Additional factors that could have been taken into account

The following are additional adjusting factors that could have been taken into account when comparing on-site with off-site proposals:

- An estimate of revenue that could have been derived from selling the existing laundry equipment and perhaps leasing the facility in the event that an off-site proponent was chosen.
- An amount representing a sharing of a contracted volume discount obtained by a regional health authority from one of the off-site proponents.

Services to Children and Families

In response to a complaint directed to my Office regarding the appropriateness of services provided to three children receiving protective services from the Department, my staff reviewed the file documentation and interviewed the District Office Manager and Supervisor responsible for these cases.

In a letter to the Deputy Minister of Family and Social Services, I reported that my staff did not find any file documentation deficiencies in respect to the requirements of Departmental policy.

Supports for Independence-supplement to earnings and related assistance

In my previous report (page 104), I recommended that the Department review the status of clients whose earnings are being supplemented or who are receiving support while they are seeking employment or receiving training, to determine whether appropriate assistance is being provided to help them become financially independent. Although the Department has indicated that this matter has been attended to, they do not have summarized information on how many files they looked at and whether the files contained suitable plans to further the independence of clients. Consequently, I will be following up on this area in 1997-98.

Metis Settlements Transition Commission
year ended March 31, 1997**Longer-term planning**

In my previous report (page 110), I recommended that the Metis Settlements Transition Commissioner encourage Metis Settlement councils to develop business plans setting out longer-term operating strategies and financial forecasts, thereby enabling the Commissioner, settlement councils and settlement's members to guide each settlements progress towards self sufficiency as envisaged in the Metis Settlements Accord Implementation Act.

*Three-year plans
containing performance
measurement targets are
due from each Metis
Settlement in September
1997*

The mandate of the Metis Settlements Transition Commission was extended to 2002 by a proclamation issued under the Metis Settlements Accord Implementation Act in March 1997. A Matching Grant Replacement Agreement signed on March 17, 1997, between the Metis Settlements General Council and the Minister charged with the administration of the Metis Settlements Accord Implementation Act provided for a new funding arrangement where 22% of the funding will be subject to two conditions. Firstly, that each of the eight Metis Settlements prepare, and annually update, a three-year business plan and secondly, that settlements accept that their goals should be measured and reported upon. The due date for the preparation of the first plans is September 30, 1997.

Other entities

Financial audits of the following were completed for the year ended March 31, 1997:

Metis Settlements Transition Commission
Metis Settlements Transition Fund

Guidance to reader

The Ministry of Federal and Intergovernmental Affairs develops government-wide policy and strategies for Alberta's relations with other Canadian governments and the international community. Virtually every ministry in the Alberta government is affected by an issue which reaches beyond Alberta's borders. The Ministry works closely with other ministries, and through strategic partnerships with businesses and organizations, to influence the policies of other governments. It takes a lead role, co-ordinates, or acts as advisor depending on the nature of the specific task.

In 1996-97, the Department spent about \$5.1 million. Of this amount, \$3.2 million was spent on manpower and \$1.7 million on supplies and services. The Department does not manage any significant revenue systems.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Federal and Intergovernmental Affairs for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry financial statements.

There were no matters, other than the reservation described above, reported to management at the end of this year's annual financial audit of the Ministry of Federal and Intergovernmental Affairs.



Guidance to reader

The vision expressed by the government for the health system is “*healthy Albertans in a healthy Alberta*”. This incorporates the idea of providing services for those who are ill, and promoting and protecting the health of individuals who are well. The mission of Alberta Health (the Ministry) is to improve the health of Albertans and the quality of the health system.

Many organizations make up the structure of the Alberta health system. In addition to the Department of Health, there are seventeen regional health authorities and two Provincial health boards. There are at least ten professional associations representing care givers such as physicians, nurses, pharmacists, dentists, and optometrists. There are more than forty councils, foundations, advisory and appeal boards. Operating within this diverse structure are many committees and task forces.

The expenditure history of the Department of Health is as follows (unadjusted for inflation):

<i>Department of Health expended \$3.812 billion in 1996-97</i>	1992-93	\$4.2 billion
	1993-94	\$4.0 billion
	1994-95	\$3.9 billion
	1995-96	\$3.7 billion
	1996-97	\$3.8 billion

For the fiscal year ended March 1997, the Department of Health expended \$3.812 billion. For the year ending March 1998, the Government expects Provincial health spending to increase 3.8% to \$3.958 billion. About 60.8% of this money will go to regional health authorities and Provincial health boards, 18.6% to health service practitioners, and 5.1% for drug benefit programs.

My observations relate to the structure and systems for achieving accountability in the health care system. I also provide comments on the effectiveness of systems used to manage approximately \$1 billion of physician and drug costs.

Accountability is about the setting of expectations, measuring results and costs and therefore is key to achieving cost-effectiveness. I believe that accountability is of central importance to the health system of Alberta. Now that organizational restructuring is largely completed, I expect to see accountability being put into practice. While progress is being made, much remains to be done to implement accountability as a process for delivering quality health services at an acceptable cost.

My recommendations are aimed at action to improve accountability and achieving more cost-effective health care

My recommendations are designed to improve systems and governance in the health care system. Overall, the result of the work of my staff shows that information and risk management are key to achieving improvement in the delivery of health care. The following main messages are aimed at achieving more cost-effective health care:

- The Department of Health has been working to improve accountability in the health care system. There is a need to further clarify the accountability of all organizations having a significant impact on costs and results and to provide performance information in support of the accountability process.
- Steps have been taken to promote the understanding of governance. An important next step would be for the Department of Health and health authorities to work together and begin reporting on the performance of governance.
- In building a health information network, information resources will have to be coordinated and standards set so as to increase effectiveness of health care services, avoid unnecessary costs, enable the exchange of information between systems, and to ensure that systems produce needed information.
- A new process is required for managing risks in physician funding and payment systems in order to provide greater assurance that public money is allocated and spent each year with due regard for efficiency and effectiveness.

- Priorities for issuing clinical practice guidelines should be established and an evaluation done to assess the results achieved from the spending of public money to produce guidelines.
- The Department of Health faces a considerable challenge in improving the cost-effective management of some \$250 million in drug costs. While steps have been taken over the past few years to contain expenditures, the Department has the opportunity to adopt new methods for achieving cost-effectiveness in the delivery of drug programs.
- With the assistance of the Department of Health, regional health authorities and Provincial health boards have progressed in financial and performance reporting. Improvements can still be achieved by having measures of key results and associated costs included in financial statements of health authorities.

Department of Health year ended March 31, 1997

Scope of audit work

In addition to the annual financial audit, which resulted in the reservations described below, the following work was completed:

- Follow-up on the advancement of accountability in the health system, governance by health authorities, information systems, use of clinical practice guidelines, physician funding, and fee-for-service rates.
- Examination of the management of drug costs.
- Assessment of financial reporting in the health sector.
- Results of health authority audits for the fiscal year ended March 31, 1996. The results of authority audits for the year ended March 31, 1997, will be reported in my 1998 Report.

**Accountability in the Health
system****Recommendation No. 15**

It is recommended that the Department of Health ensure accountability is established for all organizations in the health care system who have a significant impact on costs and results. Key performance measurements should be set in relation to agreed performance expectations and accountability for major components of health care costs should be defined.

In my 1996 Report, I recommended that the Department of Health develop a reporting framework that provides the information needed for accountability, governance and operating purposes. I also recommended that the Department of Health and Regional Health Authorities work toward ensuring optimum use of public funds provided to community, voluntary and private organizations for the purpose of delivering regional health services.

It was observed that information was not complete nor integrated; that a vision of accountability reporting had to be made clear; that health programs needed to be defined in a manner that supports the measurement of performance, and that external reporting should be aligned with internal reporting.

The Department of Health has shown leadership by issuing a draft accountability framework

Progress is being made. The Department of Health has shown leadership by issuing a draft accountability framework and introducing reporting requirements for the business plans, annual reports, and financial statements of regional health authorities.

Alberta Health recently issued a draft document for discussion entitled “*Achieving Accountability in Alberta’s Health System*”. This document recognizes the need to lay a new foundation to improve accountability. It is the first step in developing a complete accountability framework. The document is described as a starting point for public discussion of accountability.

The document usefully sets out broad areas of responsibility of the Minister of Health, regional health authorities, Provincial health boards, professional associations, health professionals, and other organizations such as the Provincial Health Council and various advisory and appeal boards.

The framework recognizes that accountability is a function of both structure and process. The framework focuses on accountability in the important sense of legal or hierarchical relationships and structures. In practice, the health system works as much through partnership and community relationships as it does through hierarchies. To put the framework into practice will require accountability to be emphasized as a continuous process that begins at the setting of expectations, and as a relationship based on the obligation to demonstrate and take responsibility for performance in light of agreed expectations.

The accountability document establishes the basic and important understanding that the “Ministry of Health exists solely to assist the Minister to perform the responsibilities conferred by the Legislature and to support the Minister in all duties”. The key ways in which the Department of Health discharges this duty could be further explained and communicated. For example, consideration should be given as to how the Department of Health ought to monitor the governance and accountability systems of health authorities and how assurance may be provided to the Minister as to their strengths and weaknesses.

There is an opportunity to advance accountability

There is an opportunity to advance accountability beyond strict formal relationships as defined by legislation. Organizations such as the Alberta Medical Association (AMA) and health foundations are engaged in partnership-like relationships that involve expectations. The accountability of such organizations are not yet described in the draft accountability framework.

While the AMA is an agent for determining the compensation paid to medical practitioners and is not formally accountable to the Minister of Health, it has entered agreements with Alberta Health that are partner or joint venture in nature. Parties have divided up the control over the Schedule of Medical Benefits that determines payments to physicians (see section on physician funding and payment systems).

Questions are also being posed by Alberta Health that illustrate the need for more certainty in determining the accountability of others in the health system; for example, where should accountability lie for the efficient and effective use of public funds spent under the Alberta Health Care Insurance Plan (AHCIP)? Also, the draft accountability document notes that health practitioners do not formally account to the Minister of Health or the regional authorities in terms of rationalizing services provided according to results achieved as compared to results expected.

There is uncertainty as to the nature and degree of accountability to be exercised for physician and drug costs

As a result of the above, there is uncertainty as to the nature and degree of accountability to be exercised for the \$757 million spent to compensate physicians as well as the use of regional health resources by private practitioners. Similarly, accountability for the cost-effective management of \$250 million in drug spending could be defined. Information on the full cost of delivering health services in a particular region is not available since these costs are not allocated to health regions.

Principles of accountability should also be agreed among stakeholders as part of the framework so that accountability might be better understood in practice. A principle, for example, would be that accountability must be demonstrated when performance expectations are established. Another might be that public resources must be spent for authorized purpose in accordance with principles of control such as value for money. Another principle might promote the understanding that accountability involves the management of risks.

The Department of Health acknowledges further work is required

The Department of Health acknowledges further work is required to outline more fully the structure and processes for achieving accountability in the health system, in particular as it relates to standards, performance measurements, reporting, and follow up that focuses on results to be achieved.

Governance by Health Authorities

Recommendation No. 16

It is recommended that the Department of Health work with health authorities to implement reporting on the performance of governance by health boards.

In my 1996 Report, I recommended that the Department of Health, with the participation of regional health authorities, review the progress made by the authorities in establishing effective governance with a view to promoting best practice.

Useful steps have been taken to promote the understanding and acceptance of governance

Useful steps have been taken to promote the understanding and acceptance of governance responsibility. The subject of governance was on the agenda of the last Health Authorities Forum meeting held in April 1997. The Banff Centre for Advanced Management has been contracted to design and deliver training workshops during 1997 with respect to board governance and leadership. Two minister-requested reviews of regional health authorities have been conducted by consultants and a report on corporate governance of regional health authorities was completed in June 1997.

The governance report contains fifteen summary observations. These include the need to agree on principles of governance, lack of consistency in bylaws and use of committees by health authorities, absence of guidance on Board and CEO relationships, and the need for Alberta Health to explain the linkage with achieving accountability in the health care system. The consultants made several recommendations to address these observations.

An important next step for the governance process would be to establish a reporting model

In my view, an important next step for the governance process would be to establish a reporting model that would encourage health authority boards to become pro-active in reporting on the performance of governance. Such reporting can help discharge each health authority's governance accountability and contribute to Ministry of Health annual reporting on how it achieves results and accountability in the health system as a whole. For example, elements for

governance reporting might include how a health board has ensured that the allocation of resources to meet priority health care needs of the region are appropriate, and how a board knows a health authority is maintaining effective systems of control.

Internal control is defined by the Canadian Institute of Chartered Accountants as the policies and procedures established and maintained by management to assist in achieving its objectives of ensuring, as far as practical, the orderly and efficient conduct of business.

Auditors reported a variety of weaknesses that collectively suggest that more attention to systems of control is required

My concern arises from analyzing fourteen management letters issued by external auditors to health authorities during 1996. Auditors reported a variety of weaknesses that collectively suggest that more attention to systems of control is required as part of accountability and governance. Audit observations were made about inadequate management of capital assets and lack of segregation of duties in the control and recording of inventories.

External auditors generally only examine internal controls to the extent of the reliance needed to opine upon the financial statements. Management should, therefore, not restrict action to points identified in management letters from auditors. If weaknesses in control have been identified by auditors, there is a good chance that weaknesses may extend to areas not covered by the financial audit. Management is responsible for the entire systems of control and the extent of supervision required to provide assurance that the operations of the health boards and authorities are conducted in an orderly and efficient manner.

In my view, the Department of Health has a role to play in helping health authorities establish effective systems of control, monitoring them as appropriate, and ensuring that the Minister of Health receives complete and timely assurance from health authorities and that sound systems of control are in place and working.

Development of Information Systems

Last year, I recommended that the Department of Health, in collaboration with health authorities, establish a process that would guide the development of information systems capable of providing the information necessary to assess the effectiveness of publicly funded health services. Existing

information systems were seen as fragmented and were not meeting the needs of multiple stakeholders. The challenge was to achieve more value from system development efforts while obtaining understandable and comparable information on a Province-wide basis.

Progress is being made

Progress is being made. Multi-stakeholders committees and working groups have been established to steer the building of a health information system. As a result of this process, a strategic alliance partner has been selected to develop and maintain a new health information network for Alberta. Legislative proposals are also being discussed to provide increased protection over the privacy of health information

*Information resources will
have to be coordinated*

Within the established process, it is recognized by the Department of Health that information resources will have to be coordinated in order to set information standards and to avoid unnecessary costs or the building of systems that are not capable of exchanging information or do not produce needed information.

There is also the immediate problem of correcting the computer programs of existing critical information systems to ensure they are capable of functioning properly when the year 2000 is reached. A plan to address this problem is being finalized and work has begun in the Department to correct the program coding of information systems.

Once the system architecture is established, continuing support and leadership from the Department of Health will have to ensure the health information system works as expected and that controls are in place to appropriately safeguard information.

I will continue to monitor progress with a view to the production of information needed to manage costs and results in the health care system.

Health Program Administration

Clinical Best Practice Guidelines

*Clinical best practice
guidelines are a tool in
helping to increase the
effectiveness of treatment*

*Following a guideline can
potentially increase or
decrease health care costs*

Recommendation No. 17

It is recommended that the Department of Health, in collaboration with other stakeholders, establish priorities for the issuance of clinical best practice guidelines and report on the benefits achieved from the spending of public money to develop guidelines.

Clinical best practice guidelines are a tool in helping to increase the effectiveness of treatment of individual illnesses and in promoting effective use of health care dollars on a Province-wide basis. Guidelines are systematically developed statements to assist practitioners and patient decisions about appropriate cost-effective health care for specific clinical circumstances.

Last year, I observed that the Department of Health, the Alberta Medical Association (AMA), and health care providers needed to collaborate on a process that will support decisions on the appropriateness and effectiveness of medical services. I recommended that a framework be established to take advantage of the best practices for providing consistent quality care on a Province-wide basis.

In September 1994 the Minister of Health and the AMA signed an agreement on the establishment of a Clinical Practice Guideline (CPG) Program. The AMA administers the Program and a fund established for the Program. A ten-member advisory committee oversees the Program and directs the AMA. The CPG Program guidelines are issued for voluntary compliance by practitioners.

The primary aim of guidelines is to promote best clinical practices with a view to achieving best health results. Following a guideline can potentially increase or decrease health care costs. The impact on costs would be indirect since the use, or non use, of guidelines is voluntary and not directly tied to physician fees. Should a doctor choose not to follow a guideline in treating a patient, physicians and others are still paid for the services that are performed.

Guidelines themselves contain some information on intended health benefits, but very little about economic or cost effects. We also understand from the Department of Health that CPG Program guidelines are not sufficiently advanced in number to be a significant factor in the recently announced peer practice review program of the College of Physicians and Surgeons.

To date, \$1.25 million of public money has been invested in a program to develop and issue clinical best practice guidelines

Since the CPG Program began in 1994, a process for developing and issuing guidelines has been established. To date, \$1.25 million of public money has been invested in the Program. Up until June 1997, ten guidelines had been issued (one being revised) and seven were in production. Guidelines have been issued on subjects such as cardiovascular event risk, radiography of the ankle and foot, cataract management, certain hormonal conditions in men and women, viral hepatitis, and thyroid dysfunction.

With respect to Alberta's CPG Program, it is observed that:

- Priority areas or subjects for guideline issuance need to be established from among the potentially hundreds of areas or subjects that could be covered by a guideline, including the use pharmaceutical drugs.
- A level of program output ought to be targeted. The process of issuing a guideline takes time. It can take one year to issue one guideline.
- An evaluation of the use of guidelines among practitioners and patients ought to be done in order to assess the impacts of the CPG Program in the health care system and to know the results achieved from the spending of public money.

**Physician Funding and
Payment systems****Recommendation No. 18**

It is recommended that the Department of Health develop a new process to address risks and opportunities within the physician funding and fee-for-service payment systems in cooperation with the Alberta Medical Association and regional health authorities.

In past years, I have recommended that the Department of Health foster the implementation of physician funding systems that focus on enhancing the health of the population. I noted that an effective payment system would likely need to contain several compensation systems since the fee-for-service payment system contains no obvious strategy to promote more cost-effective services, or discourage unnecessary services.

Medical services and related payment systems should be linked to the achievement of health goals

Medical services and related payment systems should be linked to the achievement of health goals. The current system, however, is based on physician/patient contact, and pays physicians on the basis of each service provided. Some believe that a volume driven payment system poses the risk of encouraging the provision of unnecessary services.

The Department is becoming more familiar with alternative remuneration methods

The Department of Health is becoming more familiar with alternative remuneration methods and wants to promote them. The Department has also been preparing for upcoming negotiations with the Alberta Medical Association (AMA) with a view to reaching mutually agreeable improvement in physician funding and payment systems.

I have not seen a comprehensive assessment of alternative payment methods to indicate which method(s) would be best suited for particular practice circumstances in Alberta and would, on balance, be the best ones for achieving health goals and allocating funds. Also, the Department has not formally assessed the extent to which current fee-for-service rates represent reasonable compensation in the current environment of medical practice and in relation to Ministry priorities and goals.

Six pilot projects were approved that will test alternatives to fee-for-service

I note a recent initiative has been taken called the tripartite process. This process involves the Department of Health, the AMA, and regional health authorities. After months of intensive efforts to screen many proposals, in May 1997 six

pilot projects were approved that will test alternatives to fee-for-service such as fixed payment, salary, fee for comprehensive care, or a blend of alternative methods with traditional fee-for-service. The projects involve about 25 doctors. While not expected to yield savings, the projects are significant because they signal a willingness to move beyond fee-for-service and to adopt alternative remuneration methods in combination with fee-for-service. The projects have to be put into practice and just how these projects will translate to changes in a fee-for-service driven system remains to be seen.

Understanding physician funding and fee-for-service systems is necessary to promote accountability and to achieve improvements in the way these systems operate. Accordingly, I make the following additional observations.

Physician funding and fee-for-service payments are connected through complex agreements and understandings

Physician funding and fee-for-service payments are connected through complex agreements and understandings between the Department of Health and the Alberta Medical Association. For example, agreements were entered into establishing annual funding limits (caps), a reserve pool, and a fee stabilization fund.

What physicians get paid individually according to fee rates within the Schedule of Medical Benefits is not the total of compensation provided to them as a group

With the advent of annual funding limits (caps), what physicians get paid individually according to fee rates within the Schedule of Medical Benefits (SOMB) is not the total of compensation provided to them as a group by the government. In addition to the payment of fees as billed individually by physicians, compensation is also provided through the AMA in the form of medical and other benefits. Money is also provided to the AMA for special programs such as assisting doctors who have been affected by health care reform.

The government undertook to provide total compensation to physicians at predetermined annual funding limits

The government undertook to provide total compensation to physicians at predetermined annual funding amounts (caps) up to 1997-98. If actual payments to physicians are less than funding caps, the AMA retains the difference on behalf of physicians in a reserve pool. Annual funding caps (such as \$736.7 million for 1996-97) were determined in negotiations between the Department of Health and the AMA in 1995. In order to help keep actual payments within funding caps, the

Department and the AMA agreed to an across the board reduction of 4% in fee rates in August 1994 (excluding pathology services).

When total payments to physicians are less than funding limits, excess funds are transferred to a reserve pool

The Department of Health considers annual funding caps to be a revenue commitment to physicians as a group. When total payments are less than the caps, excess funds are transferred to a reserve pool.

A fee stabilization fund is used in lieu of making reductions to fee rates

In addition to the reserve pool, there is a fee stabilization fund which is used in lieu of making reductions to fee rates in the SOMB. To date, \$30 million has been put into this fund. Parties have agreed that no fee decreases are anticipated under the existing agreement that expires in March 1998.

Over the past three fiscal years, physician expenditures have exceeded caps by about \$27.3 million

Over the past three fiscal years, payments to physicians have exceeded caps by about \$27.3 million. Reserves built up from the past are being drawn down. The balance in the reserve pool has to be finalized with the AMA. According to figures provided by the Department of Health, as at March 31, 1997, (subject to finalization) approximately \$17.2 million remains in the reserve pool.

The way the funding and payment mechanisms work makes control and accountability uncertain

The Department of Health indicates that funding caps are a method of controlling expenditures. The way the funding and payment mechanisms work makes control and accountability uncertain. There are lessons to be learned and applied in forging future funding agreements. It is observed that:

- Funding caps have been effectively, but not technically, increased by providing at least \$17 million in additional funding as placed in the fee stabilization fund.
- Parties agreed to make best efforts to achieve \$100 million in annualized savings in physician and drug costs on a system-wide basis by the end of the 1997-98 fiscal year. While ways of doing this have been looked at, none have been established that would effect a \$100 million change, nor has a measurement and report of savings been established. Achievement of this level of savings is uncertain at this time.

- By agreement, the AMA has the right to reallocate the fees payable for any or all items in the SOMB. Although the Minister must approve changes to the SOMB, the Department is unable to exercise unilateral control over fee rates even if physician payments exceed funding caps. If the Department of Health wanted to reduce payments by changing fees it would need agreement by the AMA.
- There is no agreed course of action as to what happens if payments exceed funding caps to the extent that the reserve or stabilization fund become insufficient.
- While there is a consensus process to be followed, who ultimately decides the use of reserve funds is uncertain due to lack of precision in the wording of the agreement. It is also not clear what happens to a balance remaining in the reserve pool, if any, when the agreement expires. There is an understanding that any amount remaining in the fee stabilization fund will be shared in proportion to amounts put in the fund by the Department and the AMA.

Fee-for-service Rates

Individual physicians receive a predetermined fee for specified services according to a Schedule of Medical Benefits (SOMB). The SOMB is a schedule of payment as defined under the *Alberta Health Care Insurance Act*. There are about 4,000 service line items detailed for payment in the SOMB. These can be categorized into two general groups, visits (including consultations) and procedures (diagnostic, therapeutic and surgical). A physician is paid according to the type of service provided at rates that are applied to a standard unit of production. The more services delivered, the more a practitioner receives in revenue.

The Department has not formally assessed the extent to which current fee-for-service rates represent reasonable compensation in the current environment of medical practice and in relation to Ministry priorities and goals

In 1996, I commented that fee-for-service rates do not necessarily reflect the value of services provided, nor were they necessarily reflective of current medical practices, or sensitive to where services were being delivered. I recommended that the Department assess whether the fee-for-service rates set in the SOMB represented reasonable compensation for medical services provided within the current medical practice environment. The Department has not formally assessed the extent to which current

fee-for-service rates represent reasonable compensation in the current environment of medical practice and in relation to Ministry priorities and goals.

The original rates in SOMB represented the appropriate compensation for providing medical services at the time the Plan was established. Since then, the Department, in negotiation with the Alberta Medical Association (AMA), has made several changes to these rates, as well as introduced new rules for new and old services.

Rate changes were based on negotiations with the AMA to consider inflation and other factors. This basis means that the rates for fee-for-service claims are not necessarily based on the value of services provided, using factors such as skills and time required, technology changes, capital requirements, availability of service providers, etc.

Efforts have been made in the past to modify fee-for-service, but with little end result to date.

Since 1987, the Department of Health provided in excess of \$1 million to the AMA to develop a relative value guide

Since 1987, the Department of Health provided in excess of \$1 million to the AMA to develop a relative value guide (RVG). A relative value guide is a unit value system which can take into account a number of factors relating to the intensity and complexity of services provided, new technologies, and skill sets required. All this is with a view to establishing equity or “relative values” of different medical services.

Work has been done in developing RVG for services within specialty sections of health care. While study work has been done, a RVG has not been implemented in actually setting fees within the SOMB since consensus could not be reached on how to implement proposals. Work on a RVG has not been active since 1994, with the exception of a recent pilot project to test alternative approaches for fee-for-service payments in rural settings.

Systems have emphasized funding and payment with less emphasis on assuring that public money is allocated and spent with due regard for efficiency and effectiveness

In conclusion, systems have emphasized funding and payment with less emphasis on assuring that public money is allocated and spent with due regard for efficiency and effectiveness. Lack of information in this regard is a continuing concern since current agreements with the medical profession are coming to an end and must be

The Department of Health is fully aware of the situation and is working to improve control and accountability in the systems of physician funding and payment

renegotiated in the very near future. Decisions made over the next few months will have systemic consequences for years to come.

The Department of Health is fully aware of the situation and is working to improve control and accountability in the systems of physician funding and payment as part of current negotiations with the AMA and in building a new health information system. I will report next year on how systems have been changed.

Management of Drug Costs

Publicly funded Alberta drug programs are a collection of different mechanisms for the coverage of pharmaceutical services

Provincial government drug programs accounted for approximately \$315 million of expenditures in 1996-97. Publicly funded Alberta drug programs are a collection of different mechanisms for the coverage of pharmaceutical services. About 80% (\$250 million) of Provincial drug expenditures are administered by the Department of Health (Alberta Health). The remaining 20% is mainly comprised of the \$64 million spent by Alberta Family and Social Services on pharmaceutical coverage for low income Albertans or those who are handicapped.

The following is a brief description of the drug programs under Alberta Health:

- The Alberta Health Care Insurance Plan (AHCIP) provides universal coverage with no premium charge for seniors, widows and dependants, in each case with a co-payment of 30% of the prescription cost up to \$25 per prescription. For Albertans under age 65, coverage is similarly available to anyone who pays a premium. Drug claims are administered under contract by Alberta Blue Cross. Drug claims paid under AHCIP amounted to \$169.4 million for the year ending March 31, 1997. Payments increased by \$16 million, or 10% over the previous fiscal year.
- Special drug programs are funded by Alberta Health which provide, at no charge to patients, certain out-patient drugs required for the treatment of conditions such as HIV/AIDS, cancer, and cystic fibrosis. Reported expenditures for 1995-96 were \$14.7 million.

- Funding for medicines within Provincial health facilities is provided through regional health care budgets. This amounts to approximately \$65 million.

Since 1993, steps have been taken by the Department of Health aimed at containing the increase in pharmaceutical expenditures. For example:

- Increases to participant co-payment (from 20-30%) under AHCIP took place in 1994-95. Increasing the amount paid by the user reduces the expenditures of the government, but increases the cost to registrants. The effect was to lower the net expenditures of the Department of Health by approximately \$6 million over the first year.
- Establishment of the Expert Committee on Drug Quality and Therapeutics in 1991 is a key control for adding or deleting drugs to the Drug Benefit List based on scrutiny of information provided about benefits and costs. The List currently contains about 840 types of drugs that can be prescribed in 3,400 forms.
- Least Cost Alternative (LCA) pricing was introduced which is the lowest unit cost established for a drug product (within selected interchangeable groupings) that will be reimbursed under AHCIP. Approximately 1,200 forms of drugs (35% of the Drug Benefit List) are now subject to LCA. An LCA priced drug is usually a generic drug, but can be a brand name drug. Data is not readily available to determine what proportion of drug expenditures relate to LCA-priced drugs.
- Alberta Health is currently participating in joint federal/provincial task forces to address drug utilization and costs. Alberta Health also established a Drug Initiatives Review Committee in January 1997. The Committee is expected to report in September 1997 with the aim of implementing selected initiatives which will lead to a more accessible, appropriate and affordable prescription drug program in Alberta.

Much of the treatment offered to patients is in the form of highly developed technological medications to be taken in well-defined dosages. Approximately 21,000 drug products

(of which approximately 1,200 are patented) are on the market in Canada, representing about 4,000 different chemical compounds.

Alberta, like other provinces, relies on the federal government to ensure the safety and efficacy of drugs sold in Canada

Alberta, like other provinces, relies on the federal government to ensure the safety and efficacy of drugs sold in Canada and to regulate the price of patented medicines (which make up about 44% of all medicine sales in Canada). The federal regime for controlling drug costs is confined to ensuring that the market price of newly patented drugs are not excessive. Beyond this, there are a number of ways that Alberta Health can manage the direct and indirect cost of drugs. These include determining what drugs are covered, the extent of coverage, the price at which drugs are reimbursed or purchased, and influencing how drugs are used.

There are a number of ways that Alberta Health can manage the direct and indirect cost of drugs

There are significant inherent risks in the management of drug costs. Potential or inherent risks in the financial management of drug costs include lack of built-in incentives to promote the cost-effective use of drugs; limited information to understand the cost-effective use of drugs; and the active marketing and promotion of drugs by manufacturers creating a sustained upward pressure on drug costs.

There are significant inherent risks in the management of drug costs

To illustrate, a risk in maintaining cost-effectiveness is signaled by information published by the federal Patented Medicine Prices Review Board. In 1995, 45 of the 81 new drugs patented in Canada were classified as drugs that provided moderate or no therapeutic improvement over existing medicines. Only two were considered a first drug product to effectively treat a particular illness or which provided a substantial improvement over existing medicines. This poses the challenge of having information to determine if the higher cost of new drugs is leading to a corresponding increased advantage in health care delivery.

Other potential risks in drug use include over or under utilization of drugs resulting in higher overall health system costs; increasing complexity in maintaining safety because of increasing number of drug interactions which could increase other health costs; and errant patient behaviour in following drug treatment plans which may lead to waste or increase other health care costs.

The Department of Health cannot deal with such risks alone and in isolation from other stakeholders in the health care system. In order to influence the direct and indirect costs of drugs, the Department would need a guiding plan and play a co-ordinator role.

Our audit objective was to determine if the Department of Health was identifying and managing risks associated with the cost of pharmaceutical drugs

Our audit objective was to determine if the Department of Health was identifying and managing risks associated with the cost of pharmaceutical drugs; and, to determine if the Department had appropriate systems for managing drug costs and is providing information for decision making, control and accountability.

Managing drug costs

Recommendation No. 19

It is recommended that the Department of Health carry through with a new plan for managing drug costs based on an informed assessment of risks and alternative methods for promoting the cost-effective use of drugs in the health care system.

The ability to continue to manage costs under existing systems will likely not be possible

While steps have been taken to slow the growth of expenditures under AHCIP, the ability to continue to effectively manage costs under existing strategies and systems will likely not be possible. Expenditures and drug claims continue to rise as shown in Exhibits 1 and 2. While various committees have been recently tasked to work on certain aspects, efforts must be followed through to develop a cohesive plan of action to advance the cost-effective use of drugs as an integral part of the health care system. The Department of Health needs better information to understand the extent and impact of risks as a basis for guiding the management and advancement of drug programs.

EXHIBIT 1. GROSS AND NET DRUG EXPENDITURES UNDER THE A.H.C.I.P.

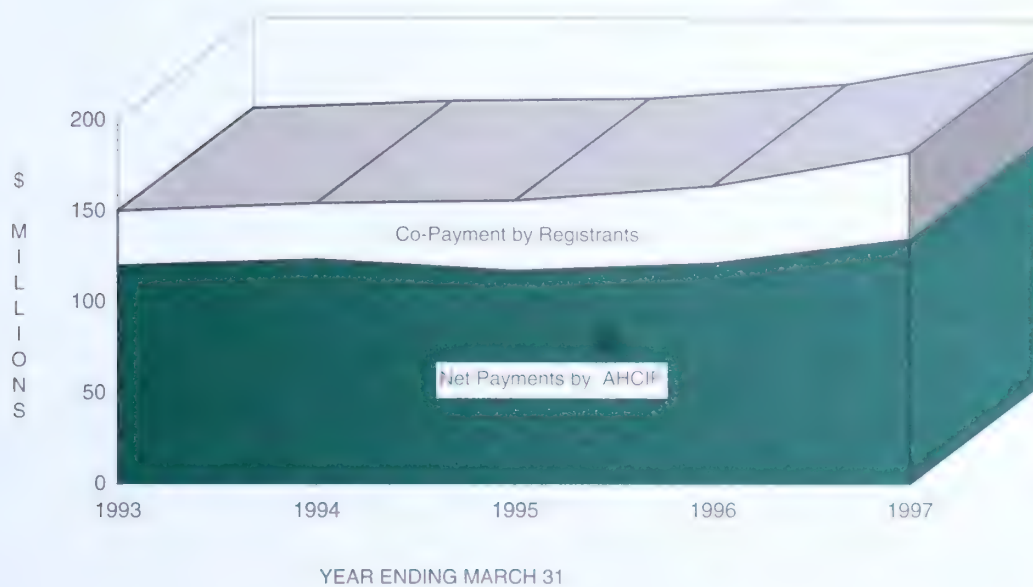
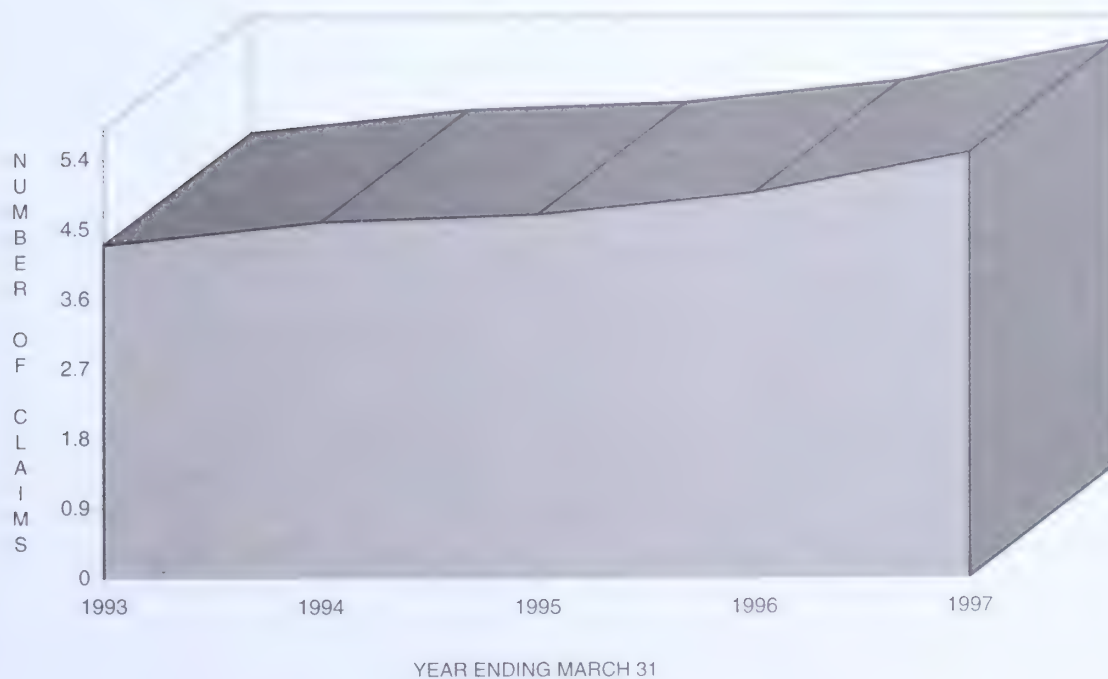


EXHIBIT 2. DRUG CLAIM VOLUMES UNDER THE A.H.C.I.P. (MILLIONS)



A Joint Expert Drug Committee was established in 1996 with a mandate to identify mechanisms to achieve savings in drug costs. The Committee's specific objective was to investigate options that would effect a \$50 million reduction to the government's drug budget by 1997-98, as expected by a letter of understanding reached in December 1995 between Alberta Health and the Alberta Medical Association.

The Committee reported in July 1996. It supported fourteen options for improving drug cost management. Unfortunately, the Committee was unable to specifically identify \$50 million in annual savings. It was able to articulate proposals that might yield between \$14 million and \$24 million in savings while maintaining or improving health care. Savings have not yet been subject to an implementation plan and ways of measuring savings have not been established by the Department of Health.

The Expert Drug Committee Report of 1996 mentions the "major drivers in costs of drug material being the introduction of new single source drugs, movement from a lower to higher cost drug, or the utilization of a drug for a purpose other than its original intent."

The Experts were concerned with more than savings. The Expert Drug Committee Report of 1996 goes on to mention the "major drivers in costs of drug material being the introduction of new single source drugs, movement from a lower to higher cost drug, or the utilization of a drug for a purpose other than its original intent."

While there is a process to critically review the addition of new drugs to the Drug Benefit List, the Department of Health has not yet implemented a process to influence costs driven by utilization. This is being explored by the Department. To address the concerns of experts, the Department, would need to assemble information on single source drugs and the information to determine the extent to which drugs are being used beyond clinically indicated use and what risks, if any, this might pose in the health care system.

Just what might the Department of Health do differently in order to improve the management of drug costs with a view to promoting cost-effectiveness? The Department is considering several possible alternatives including drug utilization reviews, expanding the use of risk sharing agreements, and development of clinical guidelines for drug use.

Drug utilization reviews (DURs) are one method of

Drug utilization reviews (DURs) are one method of

potentially influencing drug use with a view to maximizing benefits while reducing risks and costs

potentially influencing drug use with a view to maximizing benefits while reducing risks and costs. DURs are an authorized, structured and ongoing program that review, analyze, and interpret patterns of drug use against predetermined standards.

Well focused and rigorous DURs would provide valuable information and insights into pressure points or imbalances in the health care system. A plan and process for conducting DURs would need to be established by the Department of Health in consort with health professionals.

The case for drug utilization reviews, clinical guidelines, and further public education is compelling in view of information we acquired from various sources.

For example, the number one drug being claimed under the AHCIP is a gastrointestinal drug. The gross cost of this one drug was over \$11 million in 1996-97, while the cost of eight of the most commonly used cardio vascular drugs for the treatment of heart and other respiratory diseases was \$23 million. Further review and analysis by the Department would provide useful information on the causes of such drug use patterns and cost differences.

The case for measures such as drug utilization reviews, clinical guidelines, and further education is compelling

A 1993 Canada study reported a 6% to 10% rate of drug non-compliance (defined as the overuse, underuse or erratic use of prescribed medications) in hospitals with a corresponding estimated additional treatment cost of \$1.78 billion to \$2.74 billion. Preceding hospitalization, a figure of 10% was estimated for multiple or repeated physician visits resulting from non-compliance, costing the Canadian health care system an additional \$1.09 billion.

My staff wanted to see if it was possible to directly measure the risk and impacts of non-compliance in Alberta. They could not. Limitations to obtaining data on drug-related hospital admissions in Alberta arises as hospital admissions may go initially unrecorded as being drug related due to the way information is recorded on admission documentation. It may be cost beneficial to the health system to link clinical and cost data relating to pharmaceuticals in order to better understand the costs and benefits from using pharmaceuticals.

We found two indicators of a significant risk of waste

My staff found two indicators of a significant risk relating to drug waste. The Bovar Biomedical facility in Beiseker informed my staff that it disposed of 80.65 tonnes of pharmaceutical products from May 1996 to May 1997. Approximately 70 tonnes of the total pharmaceuticals destroyed were collected from within the Province. The EnviRX program operated by the Alberta Pharmaceutical Association reports having disposed of 204 tonnes of drug waste that had been returned to, and collected from, pharmacies across Alberta over a ten year period commencing 1997. In June 1997, the Association launched a new research initiative aimed at resolving the complex issues behind the misuse and waste of drugs in recognition of health and environmental risks.

A dollar value is not easily obtained to measure the direct and indirect consequences of overuse, underuse, or improper drug use and waste. The risk ramifications are exponential if one considers increased hospitalization and decreased productivity in the work place.

Programs such as drug utilization reviews, the provision of trial prescriptions, or limiting the maximum supply of drugs to a predetermined time period, have potential for better managing the benefits and costs from using drugs. Initiatives like these have been implemented in other provinces, and have been proposed for Alberta by the Expert Drug Committee. A working group has been formed to develop implementation plans for a Provincial trial prescription program and a pilot project for prescription quantity limitation.

Greater use of risk-sharing agreements with drug manufacturers is another possible next step to advance the management of drug costs

Greater use of risk-sharing agreements with drug manufacturers is another possible next step to advance the management of drug costs. Agreements have been reached covering three drugs. More of these agreements would allow for recovery by the Department of Health if costs exceed agreed ceilings or would call for a review if drug volumes reach certain levels. This would require reliable forecasting of a drug's use according to its clinical indications and targeted population. In so doing, the risk of over prescribing drugs might be reduced.

Finally, a comprehensive assessment of drug programs by the Department of Health would be needed in order to

provide information about the intended and unintended effects of programs with a view to equity, costs, and risks. Such an assessment would help formulate strategic options for achieving greater cost consciousness and accountability. Guiding principles would be needed to do this. Such principles might include whether or not drugs are to be managed as a commodity or a health service, and the extent to which costs are to be a shared responsibility.

Information on drug use and cost

It is recommended that the Department of Health acquire better information about the costs and benefits of using drugs in the health care system.

An integrated health information system has been recognized as an essential building block for managing drug expenditures and to assist physicians in prescribing drugs. Currently, there is no comprehensive integrated system to understand drug use and cost behaviour in terms of under or over utilization of pharmaceuticals.

What is required is linkages of patient, prescriber and drug cost related information

What is required is linkages of patient, prescriber and drug cost related information. Information such as this would provide an important resource for drug use studies, epidemiological studies, and research projects. It would also assist prescribers and pharmacists in determining unusual patterns of drug use and facilitate review and adjustment of drug therapy to promote safety and health/cost benefits.

A network to collect and use drug information has been recommended by the Joint Expert Drug Committee in its 1996 report. Implementation of a cost justified system has not yet been initiated. My staff were informed by the Department of Health that the implementation of a Province-wide pharmaceutical information system was currently being considered as a priority.

The Department of Health endeavors to manage costs through such means as review of new drugs and special authorizations for certain high cost and therapeutic drugs. These mechanisms apply primarily to the addition of new drugs and would affect a small proportion of the Drug Benefit List.

In terms of analyzing direct cost information, the Department of Health had not recently reviewed its current

drug costs in relation to other jurisdictions and assessed the cost-benefit of alternative purchasing strategies in the current program environment.

Provincial wide comparisons of dispensing fees indicate a narrowing of range between provinces; i.e. from a maximum of \$9.52 (Alberta) to \$6.20 (BC) in 1993-94, to \$9.07 (Alberta) to \$6.54 (BC) in 1995-96. Alberta still carries the highest dispensing fees. To look at this one cost component in isolation without considering differences in material pricing strategies and costs, however, may lead to misunderstandings or invalid conclusions.

Well-designed analysis of drug costs would provide valuable information for assessing purchasing strategies and cost performance

Well-designed analysis of drug costs would provide valuable information for assessing purchasing strategies and cost performance. As a start, I provide the following comparative information using data obtained from the respective health department of each of the provinces listed below:

Comparison of Average Drug Costs per Claim

	Material	Dispensing	Total
Saskatchewan	\$21.00	6.11	27.11
Alberta	24.35	8.60	32.95
Ontario	28.89	6.11	35.00
British Columbia	31.99	6.14	38.13

The above illustrates that while Alberta has the highest dispensing fees, it does not have the highest average total cost per claim. However, the average prescription cost difference between Alberta and Saskatchewan translates to as much as a \$25 million total cost differential per year. It is acknowledged that material cost variances may result due to the number of days of drug supply prescribed. There is potential to learn from the program design and cost experiences of other jurisdictions. The Department of Health should investigate this possibility further. I stress that discrete analysis of individual classes or types of drugs would be required to reach informed decisions. I am pleased to note that some work has been done. In August 1997, the Department looked at the unit cost of nine drugs as a beginning to cost analysis.

Obtaining reliable forecasts of drug costs

Finally, obtaining reliable forecasts of drug costs within

*within Alberta presents
another information
challenge*

Alberta presents another information challenge. As new drugs emerge and as care levels shift or change in hospitals, long-term care facilities and homes, the cost of drug use will also change. Unless there are reasonably reliable measurement of drug costs using a common method, it would be difficult to plan for the funding of future costs as the population and structure of health care changes.

Reimbursement of drug claims

It is recommended that the Department of Health develop a schedule for reviewing drugs covered under the Alberta Health Care Insurance Plan and obtain assurance that it is reimbursing drug claims based on the actual acquisition cost of drugs to dispensing pharmacies.

The Expert Committee is a key device for controlling the addition of drugs to the Drug Benefit List of Alberta. In April 1997, 108 drugs were reviewed. Of these, 65 were recommended for addition to the list; 8 drugs added required special authorization; 4 required further review, and 31 were not approved for addition to the list. Also, 37 drugs were deleted as "old drug products" based on submissions by drug manufacturers and review of them by the Expert Committee.

*There are a number of
ways in which systems and
practices could be
improved*

There are a number of ways in which systems and practices could be improved with a view to achieving program objectives and ensuring compliance with policies.

In considering the addition of new drugs to the Drug Benefit List, the Expert Committee works to make cost-benefit trade off decisions using available information. A general requirement for making improvements is to obtain health cost-benefit analysis information when decisions are to be made.

The emphasis has been on reviewing drugs for adding to the List. There are now more than 3,400 forms of drugs on the Drug Benefit List. A planned schedule for reviewing the cost-effectiveness of drugs on a priority basis would likely help maintain the long term viability of the drug benefit plan. A desire to do this has been expressed.

The Expert Committee, in its next report of October 1997 will be recommending removal of two particular therapeutic classes of drugs (cough mixtures and muscle relaxants) because of lack of scientific evidence supporting their

effectiveness and a concern that resources can be used more effectively elsewhere. These deletions are expected to reduce future costs by about \$925,000 a year.

For a drug on the Drug Benefit List, the Department of Health ought to monitor the cost that is reimbursed through a drug claim

For a drug on the Drug Benefit List, the Department of Health ought to monitor the cost that is reimbursed through a drug claim. For a Lower Cost Alternative (LCA) Drug, the cost to the Alberta Health Care Insurance Plan is fixed at the LCA value based on information provided by drug manufacturers.

At the time of our audit, the Department of Health had not determined the assurance it needs and can obtain with regard to the payment of the actual acquisition cost of drugs

There is likely little risk of paying more than a LCA price since it is fixed and matched to claims submitted to Alberta Blue Cross. All other drugs (about 65%), however, are to be reimbursed based on the Actual Acquisition Cost (AAC) to a pharmacy. AAC is described as the price paid by a pharmacy net of discounts, rebates and promotions. AAC could vary from one pharmacy to another and change over time. At the time of my audit, the Department of Health had not determined the assurance it needs, and can obtain, relating to the payment of the actual acquisition cost of drugs as required by policy.

The Department can take some assurance from selected audits undertaken by Alberta Blue Cross to verify authenticity of prescriptions and accuracy of claims submitted. From October 1996 to March 1997 eight pharmacy audits were completed. Whether or not the results are representative of pharmacies cannot be readily determined since audits are selectively targeted and are not designed to cover the some 770 pharmacies in Alberta. A higher level of assurance has to be obtained by the Department of Health in other ways. The Department should know if there is, or is not, a significant risk of paying more for drug claims than it should.

One way to obtain more assurance would be to conduct variance analysis and detect any significant differences between prices in the Drug Benefit List and the prices at which drugs are reimbursed

One way to obtain more assurance would be to conduct variance analysis to detect the degree of difference, if any, between prices listed in the Drug Benefit List and the price at which drugs are being reimbursed. Analysis like this is conducted by Alberta Blue Cross as part of its internal post claim monitoring. The opportunity exists for a report that would give Alberta Health additional information about the level of compliance with actual acquisition costs as well as showing patterns in the behaviour of drug costs as additional

risk information.

In closing, improving the management of drug costs is a complex challenge that requires an advanced plan and process based on an informed assessment of risks.

In closing, improving the management of drug costs is a complex challenge that requires an advanced plan and process based on an informed assessment of risks. The Department of Health should continue to work towards this end and strengthen its role. Much remains to be done in partnership with other stakeholders in the health care system in order to achieve effective management of drug costs.

Financial Reporting in the Health Sector

The objective of financial statements is to communicate information that is useful to users of the financial statements

The objective of financial statements is to communicate information that is useful to users of the financial statements. Financial statements of Regional Health Authorities (RHAs), Provincial Health Boards (PHBs), and the Department of Health are used in part by Board members, management, Members of the Legislative Assembly and Albertans when making resource allocation decisions and assessing the performance of the reporting organization.

The Department has provided and continues to provide guidance to the RHAs and PHBs on the preparation of financial statements. In particular, I endorse the Department's position that health authority financial statements should be prepared in accordance with Generally Accepted Accounting Principles and that accounting policies adopted should be consistent among health authorities.

I acknowledge and support the continued effort of the Department, Board members and management to address reporting issues

The ability to assess the economic performance in relation to the quality and availability of services on an individual RHA, PHB, or Department basis is important. I acknowledge and support the continued effort of the Department, Board members and management to address reporting issues at the RHA/PHB level. However, work is also required to advance financial reporting on consolidated basis.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Health for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry and Department financial

statements.

Accounting for Capital Asset Contributions

In my 1996 Annual Report, I recommended that the Department ensure that its direction to health authorities on reporting capital contributions is consistent with responsibility for funding capital asset replacement.

The RHA and PHB financial statements disclose the results of operations for the year in an operating fund and a capital fund. The financial statements for 1995-96 disclosed losses in the combined operating and capital funds in excess of \$98 million. Under the financial reporting prescribed by the Department, which was to use the restricted fund method of accounting, it was not possible to determine the portion of these losses that are in fact amortization costs that were already funded as capital payments in advance. It is my opinion that the defer and match method of accounting would address these problems.

The Department has revised its direction to RHAs and PHBs. Effective 1997-98, the financial statements of the RHAs and PHBs will be prepared on the defer and match method. This change, when implemented, will resolve my concern.

Regional Health Authorities and Provincial Health Boards

Report under Section 19(3.1) of the Auditor General Act for the year ended March 31, 1996

I have been appointed auditor of 9 of 17 regional health authorities and all of the Provincial health boards

Under Section 19 (3.1) of the Auditor General Act I am required to report on the results of examinations by the auditors

Regional health authorities, health boards and their foundations operate under the *Regional Health Authorities Act*. The *Act* requires that unless the Minister appoints the Auditor General to express an opinion on the financial statements of a region, the region must appoint an auditor. I have been appointed auditor of 9 of 17 regional health authorities and all Provincial health boards. For each health authority, I have appointed a private sector audit firm as my agent to perform the attest audit of financial statements

Under Section 19 (3.1) of the Auditor General Act I am required to report on the results of examinations by the auditors of regional health authorities, Provincial health boards, subsidiary health corporations, and community health councils. This applies to all such authorities whether audits are performed by myself as the appointed auditor or by another person appointed as auditor.

Audited financial statements and annual reports of health authorities are not finalized until July or August. It is not practical to complete a consolidated analysis in time for my reporting in September of the same year. This is why I am reporting on the audits of 1996 in my 1997 Annual Report.

The observations and recommendations contained in this section elaborate and reinforce what was reported in my 1996 Annual Report to the Alberta Legislature.

The Department of Health has taken steps to improve reporting practices of health authorities

I also point out that since the financial statements and annual reports of regional health authorities for 1996 were issued, the Department of Health has taken significant steps to improve the financial and performance reporting of health authorities.

For example, accounting changes have been introduced for 1997-98 that will require the use of the defer and match method of reporting capital contributions as a better way of measuring the costs of capital asset use. Changes have been made in the Financial Directive issued by the Department. Changes include requiring better treatment of debt retirements and investment in joint ventures, and requiring that budget amounts be reported in the statement of operations, changes in fund balances, and changes in financial position. Discussions are also taking place to set up a process to review annual reports of RHAs.

For the most part, financial statements were prepared on a consistent and comparable basis

With guidance from the Department of Health, RHAs and PHBs have improved their financial statements and annual reports. All health boards' and authorities' financial statements have been audited and received unqualified audit opinions for 1996. For the most part, financial statements were prepared on a consistent and comparable basis.

Reporting of performance by RHAs

Recommendation No. 20

It is recommended that the Department of Health encourage health authorities and boards to improve the reporting of performance in annual reports in terms of measuring results and linking them to performance expectations that have been established in business plans.

In addition to financial statements, health authorities are required to provide an annual report to the Minister of

Health under section 13(2) of the *Regional Health Authorities Act*. The *Act* specifies that: annual reports include financial statements; information on remuneration and benefits paid to members, officers, and senior employees; and other performance information specified by the regulations. The Department of Health has provided guidelines regarding the content of annual reports and has recommended certain performance indicators that could be included in the reports.

Producing an annual report is an important step in the completion of the accountability cycle. I commend the health authorities for producing them during an extremely busy period of establishing a new administrative structure in a complex environment.

The key requirement for any annual report is to provide accountability information on the results for the period reported. The results must be reviewed in terms of expectations set out in business plans.

Many of the health authorities based their 1996 reports on the goals of the Department of Health as was suggested in the guidelines provided by the Department. However, each health authority should go further and report more specific sub-goals and performance expectations that relate to their circumstances. The guidelines do not emphasize the need for annual reports to compare results to expectations as may be established in the business plan of each authority.

The Department of Health provided thirty performance indicators to the health authorities for use in their annual reports. Many of the health authorities used the indicators provided by the Department. Only two of the seventeen did not include any of the indicators. Twelve reported on some, but not all of the indicators, whereas three used all of them.

Although many 1996 annual reports provided a significant amount of detail on activities, including graphs and tables, most of the information focused on inputs rather than outputs or outcomes.

The relationship of the information to goals and objectives was not always obvious in annual reports

Indicators covered many areas including services provided, assessment of the quality of care, and status of the health of residents. Some indicators emphasized particular areas of

health services or health characteristics. For example, measurements were presented relating to newborns (low weight births and infant mortality). It should be more apparent how these particular indicators were chosen as being directly relevant to the goals, plans and performance targets of authorities.

If a performance indicator is to be given, then there should be a corresponding performance expectation of the health authority and board. To illustrate, if a health authority is expected to deal with low birth weights then the performance information should relate to strategies and goals for managing them.

I acknowledge that performance measurement is in the development stage and that improvements are being made. I look forward to subsequent annual reports that provide more meaningful information regarding the performance of health authorities.

Reporting of risks by RHAs

It is recommended that the Department of Health encourage health authorities and boards to improve the annual reporting of business risks and opportunities in delivering health services and to describe how they are being addressed.

Many 1996 annual reports did not identify the risks and opportunities

Many 1996 annual reports did not identify the risks and opportunities that each health authority encounters and how they have addressed them. Only six of the health authorities annual reports provided information about external factors affecting their business environment and only five related these factors to their goals, objectives and activities. To be effective, an annual report must provide the reader with information on how various factors impact the authorities' ability to provide health services.

The annual report should conclude with a commentary of the future directions of the health board or authority. Approximately half of the annual reports discussed future directions. Only a few of them relate future direction to the three-year business plans produced in January 1996.

In conclusion, with the assistance of the Department of Health, health authorities and boards have progressed in their financial and performance reporting. The inclusion of

performance indicators in 1996 annual reports was a considerable step forward.

Since annual reports contain financial statements, I now discuss the issued of linking performance information with financial information.

Improving financial statement reporting

Improvements can still be achieved in the way health authorities report individually and collectively

Recommendation No. 21

It is recommended that the Department of Health advance financial reporting in cooperation with regional health authorities and Provincial health boards by having financial statements include measurements of key results and the associated cost of achieving them.

Overall, financial statements for the year ended March 31, 1996 were prepared on a uniform basis thus enabling comparisons to be made among the authorities and boards. However, as noted earlier and below, improvements can still be achieved in the way health authorities report individually and collectively.

Our analysis of 1996 financial reporting found room for improvement by advancing financial statements as instruments of governance and accountability by including measurement of key results and the cost of achieving them. Also, better disclosure can be given to the revenue and costs incurred between authorities and foundations. Authorities also must ensure the reporting of all remuneration information as required by the *Regional Health Authorities Act*. Also, readers of financial statements and annual reports could benefit from introducing or improving management discussion and analysis of financial position and results of operations in terms of business priorities and risks.

Capital Health Authority year ended March 31, 1997

In May 1997 we completed a review of the drug purchasing policy of the Capital Health Authority

In addition to the annual financial audit, in May 1997 my Office completed a review of the drug purchasing policy of the Capital Health Authority as requested by the Authority. The Authority spends approximately \$22 million annually on drugs throughout the region, based on contracts awarded for some 1,700 line items in its Regional Pharmacy Services.

About 57% of the existing line items—which account for 23% of the total dollar value of all purchases—are based on multiple source competitive tendering.

About 77% of total purchase value of drugs are provided from a sole (singular) source. At the same time, vendor companies provide financial support for drug research and clinical trials to be conducted by hospitals and universities. According to last available data, this was about \$23 million in Alberta during 1995, with about \$5 million invested in the Capital region.

The Authority accepted our recommendations that any decisions based on the process of tendering of multiple-source drugs be carried out independently of research activities

The Authority recognizes the importance of research. It must, however, balance this by demonstrating that best possible value is obtained from purchasing contracts. The Authority accepted our recommendations that any decisions based on the process of tendering of multiple-source drugs be carried out independently of research activities and that the Capital Health's Conflict of Interest policy should explicitly provide for the Pharmacy and Therapeutic Committee to be informed of the potential conflict of interest situations by any person(s) requesting an addition of a drug to the Regional Drug Formulary.

Pursuant to another request, we reviewed the systems used to acquire consulting services for the implementation of a centralized regional materiel management system

Pursuant to another request from the Capital Health Authority, I reviewed the systems used to acquire consulting services for the implementation of a centralized regional materiel management system. The results were reported to the Authority in January 1997. Due to significant changes in the scope of its information system requirements, the Authority did not have the information required to determine which consulting proposal would best meet its needs for a centralized materiel management system. It was recommended that the Authority revise its financial analysis of proposals and improve its contracting process.

David Thompson Regional Health Authority year ended March 31, 1997

In February 1997, I reported to the David Thompson Regional Health Authority the results of a review of its budgeting system

In February 1997, I reported to the David Thompson Regional Health Authority the results of a review of its budgeting system. The Authority had made progress in implementing an effective budgeting system.

To promote further improvement, I recommended that the allocation of resources be linked more closely to the strategic direction as identified in the Authority's Business Plan, and that costs be related to outputs and activity levels. I also recommended that more information be provided to monitor business risks and to hold people accountable for intended results. In addition, the budget could be more complete by providing multi-year information on operating, investing and financing activities.

Other entities

Financial statement audits of the following were also completed for the year ended March 31, 1997:

Regional Health Authorities:

- Capital Health Authority**
- Calgary Regional Health Authority**
- Chinook Regional Health Authority**
- East Central Regional Health Authority**
- Headwaters Health Authority**
- Northern Lights Regional Health Authority**
- Peace Regional Health Authority**
- Regional Health Authority 5**
- WestView Regional Health Authority**

Provincial Health Boards:

- Alberta Cancer Board**
- Alberta Cancer Foundation**
- Provincial Mental Health Advisory Board**

Guidance to reader

The Ministry's core business functions include responsibilities for:

- crime reduction through policing and prevention programs;
- effective prosecution of crime;
- administration of courts;
- enforcement of sanctions imposed by the courts; and
- provision of legal services to the Government of Alberta.

For 1996-97, the Ministry's revenue was \$101 million and expenses were \$360 million. Of the total expenses, \$172 million was spent on manpower and \$135 million on supplies and services.

To increase its effectiveness, the Ministry has committed its resources to priorities addressing serious and violent crime (including the identification, prosecution and management of violent offenders); streamlining the justice system, and addressing aboriginal justice issues.

Initiatives employed to address priority areas include a consolidation of court resources to locations they are most required and exploring alternative dispute resolution techniques in resolving legal disputes. Future risks to success in the delivery of the Ministry's mandate include the effective management of the Ministry's human resources.

The continuing development of performance measures will become increasingly important for the Ministry to monitor progress in achieving its goals in these priority areas. My staff will continue to work with the Ministry to identify potential improvements in the area of performance reporting.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Justice for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry and Department financial statements.

Department of Justice year ended March 31, 1997

Scope of audit work

In addition to the annual financial audit of the Department of Justice, which resulted in the reservations described above, my staff carried out an audit of the financial statements of the Victim's Programs Assistance Fund.

My staff also conducted a review of the Ministry's performance measures, and provided comment with respect to specified audit procedures that have been completed.

Guidance to reader

The Ministry of Labour is responsible for programs designed to protect public safety, to promote safe and healthy workplaces, to foster responsible labour relations, and to protect employee rights. These programs are delivered through the Department of Labour and The Workers' Compensation Board.

The Ministry's 1996-97 expenses were approximately \$30 million (1995-96 \$34 million). This does not include the expenses of The Workers' Compensation Board which is treated as a trust fund under administration. Many of the programs administered by the Ministry are concerned with the regulation and application of safety-related services in disciplines such as building, electrical, plumbing and gas, employment standards, pension plan administration, and occupational health and safety.

Until 1994, the Department itself was heavily involved in program delivery. During the past three years, however, many program delivery duties have gradually been delegated to other entities and, during 1996-97, the Department continued the transition from being a program and service delivery organization to being a service facilitator. This transition has involved developing partnerships with municipalities, delegated administrative organizations and private sector entities. These entities are authorized to provide various services but remain accountable to the Minister.

In the area of safety services, approximately 600 delegated entities are involved in administration of the Safety Codes Act. These include the Safety Codes Council, four delegated administrative organizations (DAOs), and numerous accredited municipalities, agencies, and other entities. For example, the Alberta Boilers Safety Association is a non-profit entity that is authorized to provide programs and services related to issuance of annual certificates of operation (permits), scheduling of all in-service inspections, and accident investigation for boilers and pressure vessels. Adequate performance by DAOs is critical to the achievement of the Ministry's objectives. For this reason, our 1996-97 audit work included an examination of the relationship of the Safety Codes Council and DAOs to the Ministry. Developing effective ways of monitoring the activities of delegated

entities and ensuring their proper accountability has been, and continues to be, a major challenge for the Department.

The Department has developed, and is continuing to refine, performance measures to monitor the achievement of its programs. My staff will continue to work with the Ministry to identify potential improvements in its performance measurement and reporting.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Labour for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry and Department financial statements.

Department of Labour year ended March 31, 1997

Scope of audit work

In addition to the annual financial audit, which resulted in the reservations described above, my staff completed an examination of the systems used by the Department to hold delegated entities accountable for the safety services they deliver.

Monitoring the Performance of Delegated Entities

Recommendation No. 22

It is recommended that the Department of Labour establish policies and procedures to more effectively monitor the performance of delegated entities based on an assessment of risks.

An effective system of monitoring the performance of delegated entities is needed

The Department needs an effective monitoring system that can obtain performance information from delegated entities, identify signs of inadequate performance, encourage appropriate performance, and achieve the timely correction of identified problems. The extent of monitoring required should be determined by the risk of inadequate performance and the related public safety consequences.

Monitoring of safety services has been limited and has lacked consistency, purpose and strategy

To date, the Department has performed only limited monitoring of the safety services provided by delegated entities. Monitoring that has been carried out has lacked consistency and a clearly prescribed purpose and strategy. The Department has relied almost exclusively on compliance audits to identify inadequate performance by delegated entities. Many delegated entities, however, have not been audited, and for those entities that have been audited, intervals between audits have varied from one to three years. Further, there is no policy in place governing how, or within what timelines, there should be an audit follow-up to determine whether observed instances of inadequate performance have been corrected.

An effective monitoring system should include processes for planning, reporting and evaluating performance

In my view, the monitoring and auditing performed to date has not been sufficient to provide the Department with reasonable assurance that delegated entities are carrying out their delegated duties to appropriate standards. An effective monitoring system should include processes for planning, reporting and evaluating performance. The Department should set expectations for the quality of services to be performed and require delegated entities to report relevant activity and performance information. The nature of this information and reporting frequency should be based on an assessment of the risks to public health and safety of inadequate performance, as well as the Department's accountability information needs. Evaluation processes should identify situations where in-depth audits or investigative procedures may be warranted. For example, a selection of safety inspection reports may be examined by Department staff in higher risk areas.

Performance information submitted to the Department generally does not include information that indicates the quality of service delivery by delegated entities

Performance information that delegated entities currently submit to the Department generally does not provide much of the non-financial information that the Department should have to indicate the quality of service delivery by delegated entities. For example, certain entities such as DAOs are required to provide the Department with annual reports which include audited financial statements. However, the annual reports submitted often do not include information such as the number of inspections completed versus inspections expected or required.

A variety of accountability information could be useful to the Department in assessing safety services delivery

Given the significant number and variety of delegated entities to be monitored, and the variety of accountability information needed, the Department might consider developing a central record of each entity and its performance history, and the Department's own monitoring and auditing activities. A database could capture information for each delegated entity such as: delegated responsibilities of the entity; risks associated with the entity failing to perform its delegated responsibilities; accountability information required versus that actually provided by the entity; monitoring considered appropriate to the entity's risks versus monitoring actually performed; complaints received; accidents reported; instances of non-compliance observed or reported; and any other evidence of inadequate performance. Such data could form a basis for the Department's own accountability reporting to the Legislative Assembly and the public.

The Department has responded that it plans to take a more proactive position in ensuring quality service delivery

Following the completion of this audit work, the Department informed me that it is committed to developing effective processes for monitoring the effectiveness of services by delegated entities. The Department recognizes a need to take a more proactive position in ensuring quality service delivery through a performance management approach which includes contract management, mentoring of accredited and delegated entities and education and upgrading programs. Accountability and monitoring information will be an integral part of the Department's initiative.

In-service Inspection Backlog- pressure equipment

The backlog has increased since ABSA assumed responsibility for pressure equipment inspections

Recommendation No. 23

It is recommended that the Department of Labour, in conjunction with the Alberta Boilers Safety Association, take timely action to reduce the backlog of in-service inspections of pressure equipment.

In 1995, the Department delegated safety services administration to the Alberta Boilers Safety Association (ABSA) in an effort to meet the demand for inspections on new pressure equipment and to reduce the backlog of overdue in-service inspections. To date, the Department has not achieved its objectives to reduce the backlog. In fact the backlog has grown. The overdue inspections may indicate a higher risk of boilers and pressure vessels performing below accepted safety standards.

The Department should take action to reduce the in-service inspections backlog

At October 1996, approximately half of in-service inspections of pressure equipment scheduled by ABSA were overdue. This backlog included approximately 20,000 items of equipment on which in-service inspections were more than five years overdue. Some of the overdue inspections are related to equipment operating in public facilities, and could therefore represent a public safety risk. In view of the Department's ultimate responsibility for public safety, its action to reduce or eliminate the backlog of inspections is urgently required.

There is a Province-wide shortage of qualified pressure equipment inspectors

The Department attributes ABSA's failure to reduce or eliminate the backlog to inadequate planning when services were transferred, and a Province-wide shortage of qualified pressure equipment inspectors.

ABSA has recruited additional inspectors

I am informed that ABSA was successful in recruiting additional inspectors and ABSA has increased the number of inspections completed this year relative to the previous year. With the additional staff, it is estimated that the accumulated backlog may be eliminated over a four-year period.

The Workers' Compensation Board year ended December 31, 1996

Annual Report

It is recommended that The Workers' Compensation Board produce one annual report which combines the information contained in its annual report, and in the report on objectives, and that this combined report be provided to the Board's stakeholders.

The Board's annual report was provided to the Minister

The Workers' Compensation Board (the Board) provides performance information in two different documents. The annual report, which was filed with the Minister of Labour pursuant to section 16(2) of the Government Accountability Act, consists of the Board's audited 1996 annual financial statements together with some brief unsigned management commentary on the financial statements. In order to obtain a copy of this report, stakeholders must request a copy from the Board.

A report on objectives is the main accountability document provided to the Board's stakeholders

A second document entitled *Workers' Compensation Board - Alberta 1996 Report on Objectives* contains messages from the Board Chair and the President and CEO, and provides comments on the extent to which the Board's 1996 objectives were achieved. This report also contains a summary balance sheet and summary of operations and fund balance as at and for the year ended December 31, 1996. The report on objectives has the appearance of an annual report and is the main accountability document which the Board is providing to its stakeholders, being primarily the employers and workers in the Province.

The report on objectives is missing key accountability information

In my opinion, the Board is not being fully accountable to its stakeholders by providing only summarized financial information in the report on objectives. Readers of the report are deprived of the information included in notes to the audited financial statements such as the accounting policies used by the Board, risks and measurement uncertainties, the breakdown of assets such as investments, information about the fair values of assets and liabilities, assumptions used to calculate the claim benefit liabilities, and details of commitments. In addition, the comparison of budget to actual expenditures and details of salary and benefit disclosure which are fundamental elements of an accountability framework for all Provincial organizations, are missing.

Ministers have requested disclosure of salaries and benefits in the Board's annual report

In previous years, Ministers responsible for the Board have confirmed the government's position about salary disclosure to the Board Chair and requested the Board to include salary and benefit information in its annual financial statements and annual report. Technically, the Board has met this expectation by providing the required information in its "annual report" to the Minister. However, unless stakeholders request a copy of the annual report given to the Minister, they will not be provided with complete audited financial statements and important accountability information.

Government's objective is to have audited performance information provided to the public

A major objective of the Province of Alberta is to have ministries and Provincial agencies publicly report on their performance in relation to their stated measurable objectives. My Office is working with the government and its Ministries to assist in the development of performance measures and to determine ways in which my Office can add credibility to

performance information which is publicly reported. The government's objective is to have performance information, which is included in financial statements and in annual reports, covered by an audit opinion.

Accountability will be improved by providing the same information to all stakeholders

The Board should combine the information contained in the annual report and in the report on objectives into a single report. Combining the contents of these two reports will ensure all of the Board's stakeholders receive the same accountability information. It will also help to achieve the government's objective to have audited performance information provided to the public.

Investments

It is recommended that The Workers' Compensation Board improve the systems and procedures used to control investments.

The Board's internal controls and procedures for investments need to be improved.

Board is now responsible to manage \$3 billion of investments

In 1995, the Workers' Compensation Board Act was amended to give the Board exclusive authority over its investments. Prior to the amendment, the Provincial Treasurer was responsible for the Board's investments. Since the change in responsibility, the Board has been transferring investments from the Treasury Department to independent fund managers. At December 31, 1996, the Board's investments amounted to approximately \$3 billion of which approximately \$1 billion is being managed by the independent fund managers. The Board intends to place most of its investments with independent fund managers.

Controls need to be implemented, and accounting inconsistencies eliminated

The 1996 audit, which was conducted by an auditor appointed by the Auditor General in consultation with the Board, revealed that investment systems, procedures and processes required immediate attention. Controls need to be implemented to ensure investment custodial positions are reconciled to fund manager reports regularly and fund managers' positions are in accordance with the investment policies of the Board. In addition, processes need to be implemented to ensure accurate reporting of investment activities. The audit revealed inconsistencies between fund manager reports and the Board's accounting records. In some cases this was the result of poor communication between those responsible for investment activities and accounting staff.

Roles and responsibilities need to be clearly defined

Also, by clearly defining the roles and responsibilities of its investment and accounting staff and by ensuring processes exist to address identified investment deviations, the Board can improve controls and procedures over investments. For example, staff must know who is responsible to monitor the fund managers' compliance with investment policies, guidelines and mandates, and if deviations are noted, the procedures to deal with the noted exceptions.

Other entity

A financial audit was also completed for the **Joint Standards Directorate** for the year ended March 31, 1997.

Guidance to reader

The Legislative Assembly has six legislative Offices whose expenses in 1996-97 were as follows:

Legislative Assembly Office	\$19.2 million
Office of the Auditor General	\$8.0 million
Office of the Chief Electoral Officer	\$8.0 million
Office of the Ombudsman	\$1.0 million
Office of the Ethics Commissioner	\$0.1 million
Office of the Information and Privacy Commissioner	\$0.7 million

These Offices do not administer significant revenue systems.

The financial statements of the Office of the Auditor General for the year ended March 31, 1997, were audited by a private sector firm of Chartered Accountants appointed by the Standing Committee on Legislative Offices. The financial statements are included in this report starting on page 247. The Office of the Auditor General audited the financial records of the other Offices as part of the annual financial audit of the General Revenue Fund. Separate financial statements are not prepared for these Offices.

Based on our examination of controls over disbursements made by the other legislative Offices, I have recommended that controls over payments of allowances to Members of the Legislative Assembly be improved.

I have again considered the adequacy of salary and benefits disclosures by the legislative Offices.

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- An examination of the systems to administer disbursements made by the legislative Offices.
- A review of the plans to address the year 2000 compliance issue with respect to automated systems.
- A review of the status of salary and benefits disclosure in other offices of the Legislative Assembly.

Legislative Assembly Office
year ended March 31, 1997**Background**

The Legislative Assembly Office provides administrative support to the Legislative Assembly of Alberta. Services provided by the Legislative Assembly Office include:

- publication of Alberta Hansard, the Order Paper, Votes and Proceedings and Bills,
- providing public information, public education and visitor services programs,
- maintaining the Legislature library, and
- payment of allowances and indemnities to Members of the Legislative Assembly.

Controls over payments of allowances

It is recommended that the Legislative Assembly Office incorporate appropriate analytical processes into its system of controls over payments of travel allowances claimed by Members of the Legislative Assembly.

Allowance claims are not regularly reviewed for reasonableness

Under the terms of the Legislative Assembly Act, Members of the Legislative Assembly may claim an allowance for kilometers driven on official business in their own automobiles. These allowances are paid on the basis of certifications signed by the Members that claims relate to the performance of their duties, and are not subject to regular review for reasonableness. While there is no evidence of improper payment, the system can be improved.

Analytical reviews are part of an effective system of controls

Section 35 of the Financial Administration Act places responsibility on the Clerk of the Legislative Assembly to implement those procedures necessary to ensure control over expenditures. In my view, an effective system of controls includes sufficient review to ensure that allowances are reasonable and are consistent with other amounts claimed. For example, there should be a correlation between the number of kilometers claimed and fuel expenses charged. The Legislative Assembly Office should establish analytical processes to assess the reasonableness of related expenses.

Salary and Benefits Disclosure

Salary and benefits disclosure improves accountability

Disclosure of salary costs improves accountability for the use of public money, and is consistent with the position of the government that the public should have access to information on how public money is utilized. The Treasury Board's disclosure requirements are an appropriate benchmark for presenting salary and benefit information.

Most legislative Offices voluntarily disclose salary and benefits

Although Legislative Offices are not required by legislation to disclose salary and benefits, the following offices voluntarily disclose this information:

Office of the Auditor General
Office of the Chief Electoral Officer
Office of the Ethics Commissioner
Office of the Information and Privacy Commissioner
The Legislative Assembly Office (LAO)

The LAO disclosure is not subject to the same control as the others

With the exception of the LAO, the salary and benefit disclosures of these offices follow the Treasury Board directive, are audited, and are subject to the scrutiny of the Public Accounts Committee. The LAO presents its disclosure to the Legislature through the Members' Services Committee.

The Treasury Board directive requires individual disclosure of the salaries and benefits of all members of the senior decision making/management group.

As a minimum, at least the five top positions, which in the case of the LAO would be the Clerk plus four others, must be disclosed. The LAO only discloses the salary and benefits of the top position.

The Ombudsman's office does not provide disclosure

The Office of the Ombudsman does not disclose its salary and benefit costs.

Guidance to reader

The mandate of the Ministry of Municipal Affairs is to facilitate the development of good local government, to ensure that those in greatest need have access to basic shelter, to ensure registration and licensing services meet public needs, and to encourage a fair marketplace for consumer goods and services in Alberta. The Ministry works to accomplish its mandate through four core businesses:

- Local Government Services
- Housing - including Alberta Social Housing Corporation, discussed below
- Consumer Services
- Registry Services

During 1996-97, the Ministry collected approximately \$300 million in fee, permit and license revenue, and its expenditures totaled approximately \$300 million.

The Minister of Municipal Affairs is responsible for delivering the government's social housing programs. These programs include Seniors' Housing, Community Housing, Rent Supplement Housing, Rural and Native Housing and Special Needs Housing. The Ministry provides subsidized accommodation to Albertans who meet eligibility criteria defined in the Alberta Housing Act and regulations.

To deliver these programs, the Ministry owns housing properties with a net book value of \$945 million. The properties consist of approximately 24,000 individual units. In addition, under the rent supplement program the Ministry provides subsidized housing to Albertans by making partial rent payments to private landlords to supplement the reduced rents paid by eligible tenants. Including amortization, debt servicing costs and other operating costs, social housing program gross expenditures for 1996-97 amounted to \$271 million.

The social housing goals of the Ministry include ensuring that social housing inventory is appropriate for the communities' needs and is maintained to a proper standard, while minimizing delivery and administration costs.

During the last two years, the Ministry has transferred the administration of its social housing programs to 152 non-profit management bodies. Previously, these programs were delivered by approximately 400 management agencies under the direct operating control of the Alberta Social Housing Corporation. The Ministry monitors the management bodies to ensure that its housing program goals are achieved.

Scope of Audit Work

In addition to the annual financial audit, the following work was completed:

- A follow up of prior year recommendations regarding the management and accounting controls used in delivering social housing programs and in safeguarding the Ministry's assets.
- At the request of the Ministry, an examination of certain financial matters related to CKUA Radio Foundation.
- A review of the Ministry's plans to address the year 2000 compliance issue with regard to the Ministry's many automated systems.
- Audits of the 1995-96 cost-sharing claims under the National Housing Act (Canada).
- An examination of the Ministry's preparedness to issue audited Ministry and Department financial statements for the year ending March 31, 1998.

CKUA Radio Foundation

The Department asked me to examine certain financial matters relating to CKUA Radio Foundation. The examination was performed under the authority contained in the Sale Agreement between the Alberta Educational Communications Corporation (ACCESS) and the Foundation, which gives the Department the right to examine the Foundation's financial records. My report commented on the current financial status of the Foundation, the manner in which the Foundation used and accounted for the grant monies it received from ACCESS, and whether the Foundation was in default in its obligations under the Sale Agreement.

The background to my examination and my overall conclusions and recommendation can be found starting on page 33. The following paragraphs deal with my detailed observations and conclusions.

Financial records and controls, and questionable expenditures

Revenues were less than budget

The Business Plan contains budgets for revenues, expenses, capital acquisitions, and cash flows for the Foundation's first five years of operation. It also contains strategies for increasing listenership, generating increased revenues and controlling costs. From the time the Foundation began operating CKUA Radio in August 1994, revenues consistently failed to meet budgets. The main reason for this was a shortfall in donation and corporate sponsorship revenues. Because expectations of improved levels of donations were not high, a campaign contemplated by the Business Plan entitled "Build the Foundation" was not attempted. This campaign had been projected to raise \$950,000 over the three years. Corporate sponsorship revenues were also disappointing, being \$506,000 less than the \$1,100,000 budgeted for the period from August 1, 1994 to March 31, 1997. Revenue from the sale of the Foundation's technical expertise, services and programs was also much lower than budgeted in the Business Plan.

Expenses were consistently over budget

Whereas revenues were consistently below budget, expenses were consistently over budget. Most expense overruns related to payroll costs. For example, more staff were hired for administration and marketing functions than were budgeted for in the Business Plan. In addition, the Foundation decided that the additional services of a director were needed to set up and manage its accounting systems. More staff were hired in an attempt to increase donation and sponsorship revenues. And finally, the Chair of the Foundation's Board functioned as de facto CEO with remuneration considerably in excess of the station manager position budgeted for in the Business Plan.

Business plan was not followed

The Foundation's expenditures included the following which were not in accordance with the Business Plan, or were for other reasons questionable:

*The Foundation's Chair
assumed the station
manager's role*

- The Business Plan calls for the Foundation to be governed by an unpaid Board of Directors, with a station manager being responsible for managing the Foundation's affairs (except for fund-raising) at an annual salary of \$85,000. And the Foundation did employ a station manager at that salary until October 14, 1994. However, from August 1, 1994 until she resigned on March 27, 1997, the Chair of the Foundation's Board of Directors was the Foundation's de facto Chief Executive Officer responsible for many of the duties of a station manager. Under the terms of her contract with the Foundation, her remuneration was \$120,000 for the first year, increasing to \$135,000 in the second year, and \$150,000 in the third year.
- The Business Plan calls for the Foundation to employ an accountant, which it did. In addition, however, one of the Foundation's former directors charged the Foundation more than \$108,000 for accounting services provided over a twenty month period.
- Between August 1, 1994 and March 31, 1997, the Foundation paid consulting fees and salaries totaling \$772,000 to the Chair and four of the Foundation's directors (or organizations controlled by them).

*Documentary evidence to
support expense claims
was missing*

- The Foundation was unable provide documentary evidence to support expense claims amounting to \$27,600 paid to the Chair of the Board and \$77,300 paid to another director during the period from January 1, 1995 to March 31, 1997. My staff were informed that the records were removed from the Foundation's offices, but were unable to determine who removed them or their whereabouts.

Accountability for Capital Assets and Grant Payments

As indicated earlier, the accountability required of the Foundation by ACCESS was seriously deficient. I define accountability as an obligation to answer for the execution of one's assigned responsibilities. In other words, those providing authority and resources should require and obtain from those to whom the authority and resources are provided, an appropriate level of reporting on the achievement of the agreed objectives.

ACCESS gave the Foundation approximately \$5.8 million

In this case, ACCESS provided the Foundation with grant funding totaling \$4,725,000 and capital assets with a book value of \$1,125,000. In return, the Foundation was expected to conform to the approved Business Plan, provide specified radio programming to Albertans for three years and, at the end of that period, be able to continue operations without government assistance.

ACCESS and the Foundation lacked an appropriate accountability framework

I suggest that as a minimum, the accountability framework needed to manage the relationship between ACCESS and the Foundation during the three year transition period should have included the following:

The Foundation should have reported to ACCESS periodically on its progress and on compliance with the sale Agreement

- Periodic reporting to ACCESS on the Foundation's progress towards achieving the agreed goals. These reports should have included quarterly reports comparing: actual revenues, expenses and cash flows to budgets; actual performance to forecast performance for such non-financial goals as audience ratings and memberships; together with the appropriate management discussion and analysis.
- Periodic representations by the Foundation that it was (or was not) in compliance with the terms of the Sale and related agreements.
- A formal process by which ACCESS could evaluate the Foundation's progress and difficulties. This might have included periodic meetings with the Foundation's Board to discuss the strategies needed to achieve agreed goals and objectives, and strategies for dealing with unfavorable results. Also to provide feedback where appropriate, and take corrective or pre-emptive action if necessary.
- Audited financial statements within a reasonable period (e.g. 90 days) of the Foundation's year-end.

There should have been a process to enable ACCESS to obtain information and evaluate the Foundation's results

The Foundation received final funding up to March 31, 1997 in April 1995, six months before providing its first accountability report

The only accountability requirement of this nature was contained in an April 1995 amendment to the Sale Agreement which required the Foundation to provide ACCESS with a report on the status and viability of the Foundation's operations. This report was to be provided by October 31, 1995. The Foundation was paid in April 1995 the balance of the grant funding for the two years ending March 31, 1997 amounting to \$2,025,000.

In my view, it was inappropriate for ACCESS to agree to expedite payment of the balance of the grant funding before it received and evaluated the status and viability report. It would have been more prudent for ACCESS to have satisfied itself of the future viability of the Foundation before releasing the \$2,025,000. But even if the status and viability report had been comprehensive and timely, this reporting requirement by itself would have fallen far short of constituting an adequate framework for an effective accountability relationship.

Board Governance

Boards must operate independently of management

There has been growing consensus in recent years on the importance to the success of organizations of effective board governance. There is now widespread agreement that the governing board of an organization should ensure that it operates independently of management. This independence is deemed vital to good governance. In essence, a board should be responsible for setting policy, approving management's plans and decisions, monitoring compliance with policies and plans, and assessing the performance of management. Management is responsible, and accountable to the board, for carrying out approved plans, managing and day-to-day administration of the organization, and reporting to the board on its performance. Under this framework, there is a clear separation of duties and responsibilities. The absence of independence from management can hinder a board's ability to evaluate management's decisions and performance. Clearly, therefore, if directors are involved in the day-to-day management of an organization, the necessary independence is absent and effective accountability can be compromised.

Foundation Board and management did not operate independently

In the case of the Foundation, there was no clear separation of responsibilities between the board and management. This, however, was not the way the Foundation was supposed to operate. The Business Plan shows clearly that the Station Manager was to report to the Board, with all management functions reporting to the Station Manager. The Plan also refers to “an independent Board of Directors”. The Foundation’s by-laws follow the same principles of independence, requiring directors to be elected by the members, and prohibiting directors and members of the Foundation from receiving remuneration for their services, other than expense reimbursements.

The separation of governance from management functions envisioned in the Business Plan clearly did not occur. Instead, as explained earlier, some Foundation Directors assumed management responsibilities, received salaries, or charged the Foundation for services provided by themselves or companies they controlled.

Separate governance and management functions with proper reporting requirements could have resulted in prompt corrective action

Even with hindsight, it is impossible to assess the impact on the Foundation’s affairs of the failure to separate governance and management functions. For example, it is impossible to determine whether an independent board would have been able to attract better-qualified people to provide the management, accounting, marketing, consulting and other services that were provided by various directors of the Foundation. Similarly, it is difficult to determine whether those services could have been obtained at a lower cost. There is no doubt, however, that the Board was unable to perform independent evaluations of management’s decisions and performance. There is also no doubt that if ACCESS, and later the Department, had been monitoring the activities of the Foundation for compliance with the Business Plan, the problems could have been identified and corrective action taken.

Conflicts of Interest

*Certain individuals
serving on Board's of
ACCESS and the
Foundation were in a
conflict of interest*

During the period from February to August 1994, when the sale and related agreements were being negotiated, and for periods thereafter, three people were directors of both ACCESS and the Foundation. In fact until she ceased to chair the Board of ACCESS in August 1995, the same person chaired the Boards of both organizations. She was remunerated by ACCESS until August 1995, and by the Foundation as from August 1994. Two other individuals were also directors of both ACCESS and the Foundation during the negotiation period, and for short periods thereafter.

In my view, these dual roles created conflicts of interest. In the circumstances, I have concerns about the ability of these three individuals, and particularly the common Chair, to represent both the Foundation and ACCESS with impartiality.

*Conflict of interest existed
during sale negotiations*

The question arises, could the Foundation Chair impartially represent the Foundation in negotiations with ACCESS, at the same time that she was the Chair of and was being remunerated by ACCESS? Until she ceased to chair the Board of ACCESS in August 1995, she was undoubtedly an influential figure in the sale negotiations. She was also a dominant figure in both organizations during the critical first year that the Foundation operated CKUA Radio. This was a time when ACCESS appears to have made few efforts to monitor compliance by the Foundation with the Business Plan. From this and other evidence, I conclude that nobody on the ACCESS Board or among its staff had sufficient authority, or resolve, to independently monitor the Foundation's compliance with the Business Plan. Having a common Chair for these two organizations resulted in a clear conflict of interest situation.

*Conflict of interest existed
when personal services
contract negotiated*

Further, the Foundation began paying the Chair a salary in September 1994, five months before her personal services contract with the Foundation was signed. This contract was not contemplated by the Business Plan, so again there was conflict of interest because the Chair was in no position to act independently when negotiating the contract.

From time-to-time, the two other joint directors must inevitably have found themselves in conflict of interest situations. For example, one of them was authorized by ACCESS to approve the Foundation's personnel contracts

over \$25,000. In that capacity, he signed the Chair's personal services contract, even though he was in no position to act independently on behalf of ACCESS while he was also a member and director of the Foundation.

The conflict of interest situations outlined above may well have contributed to the accountability and non-compliance problems referred to earlier. These problems might have been avoided if stronger accountability and governance mechanisms had been established from the outset, and if ACCESS, and later the Department, had required better reporting from the Foundation.

I note that my observations and conclusions which I provided to the Deputy Minister on April 30, 1997, and resulted in the recommendation on "Accountability for use of public funds" which I have made on page 33 were confirmed by a report issued by forensic auditors on August 14, 1997.

Housing Programs

Monitoring of management bodies

It is again recommended that the Ministry of Municipal Affairs request management bodies to set measurable expectations in business plans to allow comparison of actual results to stated expectations.

A similar recommendation was made last year

A similar recommendation was made in the 1995-96 annual report (page 151). Management bodies, under the Alberta Housing Act, are provided autonomy and authority to administer the social housing programs of the Ministry.

The Ministry has commenced its cycle of operational reviews of management bodies

I am pleased to report that the monitoring of operating results of management bodies has improved. The Ministry has begun its program of three-year cyclical operational reviews of the financial and administrative condition of management bodies. One third of management bodies were reviewed in 1996-97, and the Ministry is on target for the 1997-98 reviews. The purpose of the reviews is to examine the maintenance practices of the management bodies, verify compliance with the Alberta Housing Act and Regulations, and to ensure financial controls are in place.

Reports are received on a more timely basis and are better used to monitor management bodies

Also, Ministry staff now follow up all significant variances between budget and actual. Information about plans and results required from management bodies is now submitted on a more timely basis. For example, by June 2, 1997, the management bodies had submitted 66% of their March 1997 quarterly financial reports, 93% of the March 1997 vacancy reports, and 89% of their three-year business plans. Ministry staff follow up on late reports or plans with management body staff to provide advice and encourage prompt submission.

Management bodies should set measurable expectations that are later compared to actual results

While the timeliness of submission of business plans has improved, the quality of their content falls short of the standard for government plans. The management bodies are still not required to include measurable expectations in the plans they submit to the Ministry. The measurement of actual results against plan would enable the Ministry and the management body to better judge performance and would improve the accountability of the management bodies.

The management bodies' goals should be based on the Ministry's own goals

The goals and expectations in the management body business plans should reflect the Ministry's own goals, as disclosed in its own three-year business plan. For example, the Ministry has a goal of targeting housing assistance to Albertans in greatest need, measured by the percentage of housing assistance provided to low-income, high-need clients. By requiring management bodies to include similar targets in their business plans, the Ministry can measure individual management body performance towards fulfilling Ministry goals.

Capital Assets

It is again recommended that the Ministry of Municipal Affairs ensure that management bodies record housing capital assets correctly in their financial statements.

A similar recommendation was made last year

A similar recommendation was made in the 1995-96 annual report (page 154). In 1995-96, the Alberta Social Housing Corporation transferred the following assets to management bodies:

- its investment in the betterment of lodges owned by the management bodies, with a carrying value of approximately \$18.2 million, and

- housing project contents with a carrying value of \$5.2 million.

Capital assets have not been recorded correctly by management bodies

These transfers should have been recorded by management bodies at carrying values as at the transfer dates. However, the contents were recorded at only nominal value, and some management bodies have not capitalized lodge betterments.

There is a need for management bodies to correctly record capital assets

Management bodies should correctly record their capital assets in their financial records. Otherwise, their financial statements will significantly understate assets and, through failure to record amortization, operating costs. This may affect the operational decisions of the Ministry as these assets and costs have been omitted from the financial statements of the Department and the management bodies.

Management bodies should adopt appropriate accounting policies for capital assets

The Ministry should ask management bodies to follow generally accepted accounting principles for their capital assets. Also, management bodies should be asked to make retroactive adjustments for significant amounts that should have been capitalized.

Cost-effectiveness of housing programs

The Ministry has determined the costs of its housing programs

In the 1995-96 annual report (page 153), it was recommended that the Ministry of Municipal Affairs determine the total costs per unit of its social housing properties to enable it to manage its costs. I am pleased to report that the Ministry has determined the costs per unit, and has used this information to set tighter benchmarks for management body budgets and in determining the most cost-effective way of providing new housing units.

I will continue to monitor the Ministry's progress in reducing the costs of delivering and administering social housing.

Maintenance of housing assets

In the 1995-96 annual report (page 150), it was recommended that the Ministry of Municipal Affairs determine the condition of its social housing program properties to assess the appropriateness of the maintenance work being performed by management bodies.

The Ministry has commenced a system of regular building inspections

I am pleased to report that the Corporation agrees with the recommendation and has established a system whereby building inspections are performed by independent qualified personnel. These inspections have commenced in the 1997-98 fiscal year and are to be carried out every three years.

I will continue to monitor the Ministry's progress in ensuring that its social housing program properties are properly maintained.

Alberta Social Housing Corporation year ended March 31, 1997

Excessive Rent Subsidies

It is again recommended that the Alberta Social Housing Corporation not subsidize private sector housing units that are significantly more expensive than the average rents in the vicinity of the subsidized units.

Insufficient progress has been made

This recommendation was first made in my 1994-95 annual report (page 149).

Maximum rents payable by tenants should be average market rents

The criteria for selecting suitable units for the Rent Supplement Housing program state that the maximum rents payable by tenants for units under the program will be the average monthly rents in the vicinity of the subsidized units.

A more pro-active role is required to reduce the more expensive units

The expensive units are currently being eliminated as these units are vacated by subsidized tenants. The Corporation acknowledges that this is a slow process and as a consequence unsatisfactory progress has been made in removing expensive units from the program. The Corporation should take a more pro-active role in reducing the more expensive units from its program. The Corporation could re-negotiate the rents on the expensive units with a view to reducing subsidies. Where landlords prove to be inflexible, the Corporation could obtain alternative, more appropriately priced accommodations in accordance with the policies of the program.

Land Sales

It is recommended that the Alberta Social Housing Corporation ensure that it receives a fair share of the sales proceeds on the disposal of its assets.

Generous agreement with a Municipality for sale of some of the Corporation's Fort McMurray land

The sale of 360 housing lots in Fort McMurray was handled by the Municipality of Wood Buffalo (the Municipality) as part of an agreement, signed in October 1996, that allows the Municipality to keep between 50% and 62.5% of the sales proceeds. This agreement was for fewer housing lots but was otherwise similar to an earlier draft agreement for 593 housing lots. Management had indicated that the terms of the draft agreement might change and may not be as generous as previously discussed with the Municipality. The changes were being considered because the property market in Fort McMurray had improved significantly.

PWSS recommended a cost-benefit analysis be done

The Department of Public Works, Supply and Services advised the Deputy Minister of Municipal Affairs in December 1995 that a cost benefit analysis should be done comparing the costs of directly selling the properties over several years to the reduced costs and lower sales proceeds under the draft agreement with the Municipality.

Analysis indicates that returns for Corporation maximized if lots marketed directly

The cost benefit analysis done in March 1996 indicated that returns are maximized for the Corporation if it directly markets the lots. The analysis indicated that because of the limited on-going property holding costs, it could be 30 to 40 years before the returns for the Corporation would be higher under the draft agreement. In March 1996, the Assistant Deputy Minister, Local Government Services informed the Municipality that the agreement for marketing the Fort McMurray land would not be signed.

Agreement signed with Municipality

However, I understand that under pressure from the Municipality, and a sense that they were obligated not to cancel the draft marketing arrangement with the Municipality, the Minister and the Deputy Minister signed the agreement in October 1996.

The Corporation only received 50% of sales proceeds without achieving significant cost savings

In fact, the Municipality did not take several years to sell the housing lots and instead sold the lots within months of the agreement being signed. The sales proceeds for these lots did not significantly exceed the 1994 appraisal values. The Municipality received over \$1.3 million from the sales proceeds, net of selling expenses and legal costs. It should be noted that the housing lots that were withheld from the agreement and marketed directly by the Corporation, have almost all sold for prices that are significantly higher than the 1994 appraised values.

*The Corporation should
not have signed agreement
with the Municipality*

I believe that because the Corporation knew that the property market had improved significantly in Fort McMurray, it should not have signed this agreement with the Municipality. The marketing arrangement with the Municipality does not appear to have maximized the Corporation's share of revenue from the disposal of the Fort McMurray land.

Other entities

Financial audits of the following were also completed for the year ended December 31, 1996:

**Improvement District Nos. 9, 12, 13 and 24
Special Areas Trust Account**

Guidance to reader

The Ministry of Public Works, Supply and Services (PWSS) is a central agency responsible for providing capital infrastructure, accommodation, information technology, procurement and disposal, air transportation, and records management services to support government program delivery. The mission of the Ministry, as described in *Budget '97*, is "to facilitate government program delivery by providing quality, cost effective common services and professional expertise."

The Ministry of PWSS comprises the Department of PWSS and the PWSS Revolving Fund. The Revolving Fund operates essentially as an arm of the Department, providing central computing, telecommunications and air transportation services to other government users on a charge-back basis. In 1996-97, the revenues of the Ministry were approximately \$65 million and expenses were approximately \$465 million. The Ministry employs approximately 1,160 full-time staff and is responsible for the management of a significant portion of the government's capital assets. At March 31, 1997, the approximate cost and net book value of the capital assets used in providing its services were:

	<u>Cost</u>	<u>Net Book Value</u>
Buildings	\$1,800 million	\$1,200 million
Land	\$550 million	\$550 million
Equipment and other	\$155 million	\$50 million
Aircraft	\$35 million	\$25 million

As a central supply agency, the outputs of the Ministry are essentially inputs to other Ministries in producing the ultimate outputs of the government. Therefore, a major issue facing the Ministry is its need to provide cost-effective services. Although government departments are required to use PWSS services in certain cases (e.g. procurement of supplies above specified dollar limits), there has been considerable decentralization in the past five years of activities formerly performed by the Ministry.

The Ministry has developed significant expertise and resources in its traditional areas of business. These assets represent opportunities for government users to acquire

quality products and services, while realizing potential cost savings through economies of scale. The Ministry is working with its customers to ensure they are aware of the services it provides and the benefits they offer. The Ministry is developing performance measures and benchmarks to demonstrate whether its services provide value-for-money. Even where decentralization or outsourcing represents the most cost effective method of obtaining supplies or services, the Ministry may still play a critical role in providing leadership, expertise and guidance.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Public Works, Supply and Services for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry and Department financial statements.

Department of Public Works, Supply and Services year ended March 31, 1997

There were no matters, other than the reservations of opinion referred to above, which were reported to management at the end of this year's annual financial audit of the Department of Public Works, Supply and Services.

Other entity

A financial audit of the **Public Works, Supply and Services Revolving Fund** was also completed for the year ended March 31, 1997.

Guidance to reader

The Science and Research Authority Act was proclaimed in force on September 15, 1995.

The Ministry for Science, Research and Information Technology comprises two agencies, the Alberta Science and Research Authority (ASRA) and the Alberta Research Council, and the Office of the Minister. The consolidated expenses of the Ministry are \$50.7 million.

The main function of ASRA is to stimulate science and research, and encourage a strong economy through recommending policies and priorities for science and research which more effectively utilize the government's investment in this area.

Alberta Research Council undertakes technology development and commercialization in co-operation with the private sector. On July 10, 1996, the research activities of Alberta Research Council were significantly expanded by the transfer of the operations, assets and liabilities of the Alberta Environmental Centre. With this transfer, Alberta Research Council now has seven key market sectors for research activities: agriculture, biotechnology, energy, environment, forestry, information and manufacturing.

One of the key strategies of Alberta Research Council is the development of its human resources and intellectual capital. By developing its human resources and intellectual capital, Alberta Research Council plans to reduce its dependency on government grants and create new business opportunities for private sector companies in Alberta. In order to assist Alberta Research Council in achieving its goal of increasing its impact on the economy of the Province, my Office prepared a discussion paper on intellectual capital. This paper contains a framework identifying some of the main aspects of intellectual capital from Alberta Research Council's perspective. It also contains ideas on how to measure the value of intellectual capital created and the value of the economic impact of Alberta Research Council on the Alberta economy. The paper was presented to Alberta Research Council's management and its audit committee in May 1997, and my Office was invited to work

in an advisory capacity assisting management's development of specific models for the measurement of Alberta Research Council's intellectual capital.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Science, Research and Information Technology for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry and Department financial statements.

Alberta Science and Research Authority year ended March 31, 1997

Scope of Work

In addition to the annual financial audit, which resulted in the reservations described above, the following work was completed:

- Reported on specified audit procedures on performance measures for ASRA, and provided comments to management on how they can be improved.
- Carried out a financial audit of the Alberta Research Council for the year ended March 31, 1997.
- Reviewed the legal requirements with regards to the constitution of the Board of Directors of the Alberta Research Council.

Alberta Research Council
year ended March 31, 1997**Constitution of the Board of
Directors**

It is recommended that the Minister responsible for Science, Research and Information Technology request the Lieutenant Governor in Council to appoint members to the board of directors of the Alberta Research Council as required by the *Alberta Research Council Act*.

The current Board does not meet the requirements of section 5(2)(a) or section 5(2)(d) of the Alberta Research Council Act (the Act).

The Board does not currently include a member of the Executive Council. To comply with section 5(2)(a) of the Act, the Lieutenant Governor in Council must appoint a current member of the Executive Council as a member of the Board of the Alberta Research Council.

The current Board also does not meet the requirements of section 5(2)(d) of the Act because it does not consist of at least eight members who are not employees of the government. Currently, there are seven members who are appointed under section 5(2)(d). However, by recent Order in Council 400/97, the Lieutenant Governor in Council has appointed an eighth member, under section 5(2)(d) effective October 1, 1997.

While the requirements of section 5(2)(a) and (d) of the Act are imperative, their breach probably does not make the Board an illegally constituted body, unable to legally function. Section 5(2), however, embodies the intention of the Legislature that the government, the universities and the private sector be represented on the Board in specific proportions. The failure by the government to make the necessary appointments involves a failure to ensure that the Legislature's intention in enacting section 5(2) is carried out.



Guidance to reader

The Ministry of Transportation and Utilities comprises the following entities:

- the Department of Transportation and Utilities
- Transportation Revolving Fund
- Gas Alberta Operating Fund

The mission of the Ministry is to contribute to Alberta's prosperity and economic development by ensuring the provision of:

- an effective transportation system
- essential utility services to rural areas
- disaster and emergency services
- funding for municipal infrastructure projects
- uniformly priced and secure natural gas supplies to rural gas distributors throughout the Province
- a fleet of automobiles and light vehicles for lease by the Government of Alberta

The Province has approximately 13,800 kilometers of primary highways, 15,000 kilometers of secondary highways and 130,000 kilometers of local roads. For the primary highways, the Ministry is responsible for construction, maintenance, motor transport safety services, and dangerous goods control. The exception is primary highways through most cities, where the Ministry provides grants to municipalities for the required improvements. The Ministry also provides financial assistance for the construction of secondary highways and local roads in rural areas.

In 1996-97, the Ministry completed the implementation of its plan to fully outsource the maintenance, design and construction of highways and bridges. In addition, the Ministry discontinued its fleet, shop, and store operations.

As a result of these restructuring initiatives, and other changes, the Ministry has downsized from approximately 1,800 employees to 816 employees over the past two years. Expenses of the Ministry in 1996-97 have declined to \$668.3 million from \$903.4 million in 1995-96.

The rapid increase in road use as the Alberta economy expands presents a major issue for the Ministry. Funding resources have been limited for the past several years, and providing the level of maintenance that avoids the need for premature reconstruction of existing roads, as well as providing for the construction of new roads, has been a constant problem. In 1996-97, the Ministry commenced work on its plan to establish a transportation infrastructure management system which will enable it to identify needs Province-wide for maintenance and construction of highways and bridges. It is intended that the 34 separate systems that are presently being used for this purpose will be replaced by one comprehensive system which will have the ability to predict maintenance needs.

The outsourcing of the maintenance and construction of highways and bridges has resulted in significant changes to the operations of the Ministry. As a result of these changes the Ministry's activities must now be focused on ensuring that systems are in place to select contractors and monitor and evaluate their performance.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Transportation and Utilities for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry and Department financial statements.

Department of Transportation and Utilities year ended March 31, 1997

Scope of Audit Work

In addition to the annual financial audit, which resulted in the reservations described above, the following work was completed:

- An examination of the Department's revisions to its method of selecting consulting engineers.

- A review of the performance measures reported in the Department's annual report.
- A review of the Department's plans to address the risk of its information systems not being year 2000 compliant.
- At the request of the Department, an examination of the proposed transportation infrastructure management system.

Commitments

It is again recommended that the Department of Transportation and Utilities improve its system to control and report commitments.

The Department needs an effective system to monitor its commitments

The Department needs to monitor the progress of its maintenance and construction contracts to enable it to allocate adequate resources to meet its outstanding commitments under these contracts. An effective system should monitor the progress of work performed against work committed as a basis for identifying delays, potential overruns and the ongoing commitment of the Ministry.

In the 1995-96 audit, my staff noted errors in the amount of \$122 million in the determination of outstanding commitments. These errors were subsequently corrected in the Province's financial statements.

Significant commitments were omitted from the draft financial statements

Whereas many of the causes of last year's errors have not recurred, my staff observed significant errors in the current year. Specifically, the Department failed to identify and report the commitments for five of the 30 contract maintenance areas. As a result, the amount of the commitments, as disclosed in the Department's draft financial statements, was increased by \$55.8 million.

A cursory review of the methods used to identify commitments indicated that there are deficiencies in the underlying information systems. I intend to examine this issue in more depth during the forthcoming year with a view to recommending improvements. In my view, the need to control commitments is vital to the Department's operations and should be given a high priority.

Gravel

It is recommended that the Department of Transportation and Utilities improve its controls over gravel inventory.

An accurate gravel inventory system is necessary for Department decision making

The Department maintains a complex inventory system to monitor the use of gravel by anticipated usage. Gravel inventory of the Department is classified as follows:

- operating - used for highway maintenance projects
- capital - used for highway construction
- surplus - surplus and available for sale
- revolving fund gravel - held over several years and is sold to contractors, the Department or municipal districts.

The inventory system maintained by the Department is designed to track the use of gravel according to the above classifications. Management relies on the information from the gravel inventory system to make decisions relating to new construction projects and projecting the future need for gravel. It is imperative that this system provide management with complete and reliable information.

Gravel inventory records contained omissions and duplications of gravel used for capital purposes

The audit for the current year revealed numerous errors, netting to an approximate understatement of \$320,000 in the valuation of gravel capitalized as work in progress for highway construction. Instances were observed where the Finance Division was not made aware of, and therefore did not record, all gravel pit costing re-allocations between operating and capital and vice-versa, or gravel pits designated as surplus. Further, ten gravel pits were observed to have been duplicated in the gravel inventory report, and one reallocation from operating to capital was also observed to have been duplicated.

Gravel sales and gravel excavation costs were not recorded in the system

Several errors in the gravel inventory records were also identified as a result of the audit of the Department's revolving fund. My staff observed several instances where gravel sales and gravel pit excavation costs were not recorded in the inventory system. At March 31, 1997, the gravel inventory system reflected a balance of inventory which was overstated by \$1.3 million when compared to the financial records of the fund.

Procedures to improve the gravel inventory system should be developed

I recognize that the reliability of the gravel inventory report is dependent upon the data that is provided by the regional and district offices. From discussions with management, it appears that obtaining timely and accurate information on gravel inventory movement from these offices has been difficult. Management must work with the district offices to develop and implement procedures that will improve the timeliness and completeness of the data which is entered into the gravel inventory system.

Transportation Infrastructure Management System - risks, costs and benefits

Recommendation No. 24

It is recommended that the Department of Transportation and Utilities identify the business risks it faces in managing the Alberta transportation infrastructure, and, based on the information it needs to address those risks, evaluate the cost-benefits of the proposed infrastructure management system.

The planning stage of the new information system to assist in the maintenance of roads and bridges has been completed and design is underway

In April 1996, the Department commenced the development of a new system to provide information to assist it in its management of the construction and maintenance of roads and bridges. A Visioning and Boundary Setting Report was prepared as part of the planning stage of this new system. At the completion of the planning stage, an Analysis Report was prepared. The second stage, the preliminary design, is now underway and on its completion, Requests for Proposal will be prepared for construction of some parts of the system.

The Department has to balance its growing infrastructure needs against limited funding resources

The Department faces increasing risk in meeting its responsibilities of maintaining and expanding the transportation infrastructure. The amount of funding available to support the present carrying value of \$4.4 billion of roads and bridges has declined in recent years resulting in a risk that insufficient funding will be available to maintain the existing infrastructure and provide for additional requirements. Traffic volumes and road mileage are keeping pace with the expansion of the population and the economy.

A cost-benefit evaluation should have been performed as part of the planning stage and should be completed without further delay

In my view, an assessment of risks and an evaluation of the benefits provided by the new system, including each of its components in relation to their costs, should have been performed as part of the planning stage and therefore, at the latest, as part of the Analysis Report. Our examination indicates that the Ministry has not, up to this point in time,

addressed these issues in sufficient depth. It is my belief that if the Ministry were to perform a comprehensive cost-benefit evaluation before proceeding further with the development of the new system, a more cost-effective product would result.

Cost-benefit evaluations should be applied to system components

The cost-benefit evaluations of the main components of the system, as well as the system as a whole, are useful because the significance of the risks to be managed will vary among components. Information on road maintenance, for instance, may be more central to the Ministry's needs than information on appurtenances, another component that covers signage, guardrails, etc.

The scope of the new system needs to be better defined

The examination further revealed that the scope of the proposed new system had not been well defined. It is recognized that the cost-benefit evaluation may prompt management to expand or contract the scope of individual components in order to make the system more cost-effective. However, the scope of the proposed system should define the informational needs and the roles of the participants. The participants, whether designers, processors or users, need to understand the operational process from the capturing of source data to the dissemination of information to each end user, and their roles in the development of that process.

Selection of Engineering Consultants

In the 1995-96 annual report (page 164), it was recommended that the Department ensure that its method of selecting consulting engineers for major construction projects is cost-effective. The Department limited the number of firms (usually to three firms) that were invited to submit proposals for engineering work on major construction contracts. I am pleased to report that the Department has reviewed its methodology and has made certain changes to improve cost-effectiveness. Under the new arrangements, all pre-qualified firms are invited to respond to a general notice provided every three months by the Department listing the projects planned to commence during the next succeeding period of three months. The firms identify the projects that they are interested in submitting proposals for and also provide a ranking according to their preferences. The larger firms are allowed eight "picks", the medium sized firms four picks and the smaller firms three picks for each three-month schedule, which usually involves about 20 projects. The Department invites proposals based on stated preferences.

Under this new process, the Department has been able to receive and evaluate up to eight proposals. It is my belief that these changes have significantly improved the bid-selection process.

This new system was implemented during 1997. The Department will need to monitor the operation of the new system to ensure that it is providing the most cost-effective results. If requested, my Office would be pleased to provide advice on how management may evaluate the efficacy of the selection process.

I will continue to monitor the Department's progress in improving the cost-effectiveness of the selection process.

Disaster assistance - receivables

In the 1995-96 annual report (page 165), it was recommended that the Department take action to recover approximately \$11 million in disaster assistance that had been receivable from the federal government for several years.

I am pleased to report that as of March 31, 1997 all of these claims have been settled.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1997:

Gas Alberta Operating Fund, and Transportation Revolving Fund

Guidance to reader*Services provided by the
Ministry*

The Ministry provides financial and administrative services within government and externally through the Treasury Department and a number of Provincial agencies such as Alberta Treasury Branches, Alberta Municipal Financing Corporation, Alberta Pensions Administration Corporation, and the Credit Union Deposit Guarantee Corporation. In addition, the Department is responsible for the administration of a number of funds, the most significant of which is the Alberta Heritage Savings Trust Fund.

Ministry core functions

The following core functions are set out in the Ministry's 1996-99 business plan:

1. Facilitate sound business planning and fiscal decisions by providing analysis and recommendations to the Provincial Treasurer and Treasury Board.
2. Develop and maintain a framework to improve the accountability of ministries for their financial and business decisions, and for reporting financial information.
3. Manage the Province's financial assets and liabilities.
4. Collect tax revenue.
5. Foster a fair and efficient financial marketplace through appropriate legislation.
6. Provide financial services through Alberta Treasury Branches, Alberta Municipal Financing Corporation and Alberta Pensions Administration Corporation.

*Audit focused on risks
associated with some core
functions*

This year I have focused particularly on risks associated with four of the core functions of the ministry; the first three and the sixth.

*Risks associated with first
two core functions*

Risks associated with the first two core functions of facilitating, planning and improving accountability include business decisions being made based on incomplete and/or incorrect financial information. For example, this can arise because inappropriate accounting standards or practices are used. This Ministry section of my report contains a number of observations and a recommendation where improvements can be made by reporting the complete government reporting entity, including all costs in each reporting entity, replacing cash-based accounting with the accrual basis and matching revenues or expenses to the correct accounting period.

Also, concerning the first two core functions, there is a risk that business decisions may be made with inadequate financial information. This can arise, for example, because of delays in having the information available due to systems or processes not in place to provide accurate and timely information for ministries and for the government as a whole. My report comments on the upcoming challenges in this area in the fiscal year 1997-98 and includes a recommendation for improvement and suggestions to diminish the risks.

*Risks associated with third
core function*

There are risks related to managing the Province's financial assets and liabilities, the third core function.

At March 31, 1997, the Province's consolidated financial statements reported financial assets of approximately \$20 billion, unmatured debt of \$22 billion and pension obligations of over \$5 billion. Cash and investments held by other Provincial entities such as colleges and regional health authorities not presently consolidated adds up to another \$1.5 billion in financial assets. Ineffective management of the Province's financial assets or liabilities would have a significant impact to the Province's bottom line. Earning one percent less in return on financial assets alone would equate to over \$200 million less in income annually. My report contains a recommendation to the Department relating to the need to provide investment management services to all Provincial entities, as well as recommendations which will improve the management and reporting of the financial assets and liabilities managed by the Department.

*Risks associated with sixth
core function*

Concerning risks related to the sixth core function of providing financial services, I have focused on Alberta Treasury Branches with several recommendations for improvement, such as in the management of loans.

*The changing role of the
Ministry*

Risks related to the above core functions are being managed in a period of change. Over the last several years, the Ministry's role has changed in that it now exercises less direct control over the activities of other ministries. These organizations have been delegated greater authority to make decisions within a framework which correspondingly requires greater accountability for results.

Ministries Have Greater Responsibilities - background

Fundamental changes are occurring in the financial management of government

The second core function of the Ministry of Treasury is to develop and maintain a framework to improve the accountability of ministries for their financial and business decisions, and for reporting financial information.

The Department of Treasury is retaining overall responsibility for the financial management of the government and the responsibility to set government accounting policies, while ministers and deputy ministers are taking on more responsibility and have been given more authority, such as for detailed financial controls and financial reporting.

Need for ministry and departmental financial statements

The greater responsibilities of ministries are reflected in the Government Accountability Act (GAA). Section 14 of the GAA states that ministry annual reports must include ministry consolidated financial statements and financial statements of each of the components of the ministry, including departmental financial statements. Section 14 will be in force in January 1998, impacting the 1997-98 fiscal year.

Fiscal year reporting deadline is June 30

The GAA requires that the Provincial Treasurer release the Provincial consolidated financial statements by June 30 of each year. Beginning in 1997-98, the Provincial consolidated financial statements will be prepared using ministry consolidated financial statements. This means that all ministry consolidated financial statements and financial statements of all components of each ministry must be completed promptly in order to meet the Section 10 deadline of June 30.

These matters are discussed in more detail under the two main topics which follow, namely, "Basis of accounting for ministry and departmental financial statements" and "Timeliness of financial information and reporting."

**Basis of accounting for
ministry and departmental
financial statements****Recommendation No. 25**

It is recommended that departmental and ministry financial statements be prepared in accordance with generally accepted accounting principles.

This topic deals with ministry and departmental financial statements. Matters related to the Province's consolidated financial statements are discussed later in this report (page 206).

Business risks

As mentioned earlier, there is a risk associated with the first two core functions of the Ministry, namely, that business decisions are being made based on incomplete and incorrect financial information.

*Inter-Ministry group
prepares Milestone Report*

In January 1995, an inter-Ministry group was formed under the leadership of the Treasury Ministry to develop minimum requirements and an implementation plan for departmental financial statements. These requirements are contained in its Milestone Report which outlines guidelines for recommended accounting, identifies outstanding financial reporting issues and presents pro-forma departmental financial statements and suggestions for the preparation of ministry financial statements.

I commend the efforts of the inter-Ministry group in advancing the financial reporting of the Province.

*Determination of
appropriate accounting
policies*

When developing appropriate accounting policies, the inter-Ministry group considered the accounting policies of the Canadian Institute of Chartered Accountants (CICA) in its Handbook and of the Public Sector Accounting and Auditing Board (PSAAB). This was not an academic exercise for its own sake, but rather was a genuine attempt to use the highest available standards to meet users' business needs. In this case, it was to financially measure the operations, financial position and cash flows of ministries and the government as a whole.

*Preliminary review of
inter-Ministry group*

In the inter-Ministry group's initial report in 1995, it recommended that ideally "generally accepted accounting principles (GAAP) identified in the CICA Handbook would be the basis of accounting used in the preparation of departmental financial statements. Where particular matters

are not addressed by the Handbook, guidance from PSAAB, if available, would be followed.” However, the inter-Ministry group concluded that in some areas that the ideal practice was not practical at present. There were several issues such as full recognition of pension liabilities in reporting entities that resulted in a disclosed basis of accounting being proposed.

*Senior financial officers
acceptance of 1996
Milestone Report*

In its 1996 Milestone Report to the government’s senior financial officers, the Treasury Ministry’s staff recommended, and the senior financial officers agreed, to apply a disclosed basis of accounting for departmental and ministry financial statements, similar to the basis used for the Province’s consolidated financial statements, but with the inclusion of capital asset accounting.

*Full costing is needed to
support the ministries and
government business case*

I have the view that the ministry and departmental financial statements should be completely self-standing, meaning that all costs of doing a ministry’s or department’s business are included. This is required for proper accountability, namely, to measure consumption and consequently to assess performance.

To reiterate, for full accountability all of the annual costs consumed directly related to the reporting entity are captured irrespective of where they are initially incurred, and the annual results are therefore based on consumption of goods or services during the year, rather than on when items were acquired. For example, accommodation costs which are recorded in the Ministry of Public Works, Supply and Services should be reflected in the financial statements of the other ministries that actually use the office or operating space. Also, for example, the annual cost for the use of a truck is measured by annual amortization, rather than the full purchase cost of the truck in the year of purchase.

Possible improvements

There are several areas where I believe improvements could be made to the ministry and departmental financial statements.

*All assets, liabilities,
revenues and expenses
should be included*

Firstly, ministry and departmental financial statements should include all assets, liabilities, revenues and expenses that relate to the ministry and department. Currently, certain liabilities such as pension liabilities, vacation entitlements and long-term disability benefits are not allocated to the

departments whose service delivery activities gave rise to the obligations. In addition, some valuation adjustments and certain administrative expenses, including some salaries, accommodation and other overhead costs are not allocated to departments. Further, the impact of inventories, prepaid expenses and capital leases is not recorded and the minimum value threshold to capitalize assets may need to be refined. The key to good business operating decisions has to be full costing for each government unit whether it be a fund, agency, department or ministry. After all, at the ministry level for example, the Minister is truly responsible for all assets consumed and expenses incurred by that ministry.

All revenues should be recorded on the accrual basis

Secondly, not all revenues are reported on the accrual basis. Revenue currently recorded on the cash basis arises from corporate income taxes, mineral tax, motor vehicle and operating licenses, grazing fees and energy rentals and fees.

The reporting entity should be expanded

Thirdly, not all appropriate entities have been included in the reporting entity. For example, I believe that regional health authorities, universities and colleges, and school boards should be consolidated respectively in the Ministries of Health, Advanced Education, and Education financial statements, as well as in the consolidated financial statements of the Province.

Accountability of ministries

I believe that preparation of ministry and departmental financial statements as indicated above will facilitate the improved accountability of all ministries for their financial and business decisions and reporting of financial information. The business case for operating decisions and their financial impacts is dealt with specifically by each ministry and, in turn, that contributes to the overall government goals. I strongly believe that implementation of the suggestions above will promote more complete and accurate financial reporting and provide for a better assessment of the cost and effectiveness of ministry and government operations. Because of this belief, the reservations of opinion which I have provided on 1996-97 departmental and ministry financial statements are intended to help government and the entities focus on the key impediments to good accounting for resources, which in turn when resolved will assist good business operating decisions.

Comparison of auditor's reports on the Province's consolidated statements and ministry and departmental statements

Concerning the Province's consolidated financial statements at March 31, 1997, I was able to provide an unqualified auditor's report because they were prepared on a disclosed basis of accounting. To date, I have been satisfied with the positive initiatives implemented by the Department of Treasury, particularly towards full capital asset accounting, so I have continued with my prior reporting practice.

Accounting standards are evolving

The accounting standards are continuing to evolve, so management of the Treasury Ministry in conjunction with input from the other ministries will continue to face the challenge of new standards.

Staff of my Office will be pleased to continue to assist the Ministry's controllership function in the evolution of this project to improve the accounting standards and practices used by the government.

Timeliness of financial information and reporting

Business risks

As mentioned earlier, there is a risk associated with the first two core functions of the Ministry, namely, that business decisions may be made with inadequate financial information and that legislative requirements are not met. This can arise, for example, because of delays in having the information available due to systems or processes not in place to provide accurate and timely information for ministries and for the government as a whole.

There is a need to meet deadlines in financial reporting. In the next few paragraphs, I will comment on the problems identified this year and about the need for planning the 1997-98 year end close, as well as the need to advance test the readiness for that close.

Delays in meeting new requirements using existing systems and processes

For March 1997, ministries undertook to prepare departmental and ministry financial statements which were to be completed by June 6, 1997, but only a few ministries actually met this deadline and two ministries, Executive Council and Science, Research, and Information Technology, were over two months late. Further, we noted that the quality of several of those financial statements needed improvement.

There will be an additional process to consolidation in 1997-98

All funds and agency financial statements will likely be required to be completed several weeks earlier for 1997-98, compared to 1996-97. For 1996-97, the Province's consolidation process was a direct consolidation of about 70 funds and agencies. Next year, there will be an additional intermediary stage, because these funds and agencies will be consolidated firstly at the ministry level, then the ministries' financials will be used to prepare the Province's consolidated financial statements.

Impact of new systems

Further, new systems may impact the ministries' and the government's ability to meet the fiscal deadline. Ministries are now involved in the transition to the new IMAGIS government-wide management and financial information system through April 1999. The general ledger and accounts payable modules of IMAGIS were implemented in July 1997. Ministries need to make sure that the conversion to IMAGIS is completed successfully, that training needs are identified and addressed, and that processing of transactions on IMAGIS is accurate on an ongoing basis.

Potential impact of new systems at next fiscal year-end

In addition, there are plans to upgrade existing IMAGIS financial modules to a new version in early 1998, to introduce new financial modules and to introduce new human resource modules. This will likely also place additional demands on existing resources.

Significant challenges exist

Consequently, significant challenges exist in order to meet the required reporting deadlines for the 1997-98 fiscal year.

Ministries need to assess their resources and their priorities in order to meet 1998 deadlines

In a significant number of cases ministries have the required expertise. However, other responsibilities such as IMAGIS implementation, may significantly affect the ability of the ministry to produce appropriate financial statements on a timely basis. Ministries need to ensure that they have identified and acquired adequate qualified personnel.

Existing systems do not automatically produce accurate and timely financial information

The evidence of recent years shows that good financial management practices have not always been applied. At the year end, there is a significant volume of adjustments, estimated in the hundreds, requested and made during the year-end accounting process after the initial deadline dates. This means that unnecessary time and effort is consumed because initial information is not accurate and timely. Also, it would appear that financial information for year-end

closing is an “add on” activity only relevant at year-end, rather than an essential integrated element of the ongoing business reporting process.

Financial records need to be complete and accurate on an ongoing basis

Ministries need to apply good financial management practices and have sound systems and processes to make sure that their financial records are complete and accurate throughout the year, rather than tending to review and prepare significantly all of their annual year end financial information subsequent to the year end. Financial records need to be closed off on a timely basis for each reporting period.

Ideal practice

Ideally, ongoing complete and accurate records are necessary for accurate quarterly and monthly reporting, and also to reduce the cost of administration. That ideal practice, of course, has to be supported by good fundamental systems and processes and solid plans to achieve deadlines. This will take some time to achieve, but there has to be a meaningful time plan to reach the ideal situation.

Accrued interim financial statements needed

A priority would be to focus initially on public reporting of accrual-based interim quarterly results, as discussed in more detail later in this report under “Consolidated Budget”.

Some ministries will need their own consolidation timetable for 1997-98

Ministries also need to ensure that all fund and agency financial statements are prepared on a time schedule that enables the 1997-98 GAA deadlines to be met. It may be helpful for the ministries to consult with the Treasury Ministry about this timetable.

The role of the Department of Treasury

The Department of Treasury needs to monitor the ability of ministries to meet their reporting requirements. It also needs to make sure that ministries have sufficient guidance to maintain complete and accurate records. In addition, the Department of Treasury has the responsibility to prepare the General Revenue Fund and Province’s consolidated financial statements based upon departmental and ministry financial statements.

*Need for trial
consolidations as at
December 1997*

The GAA imposes tight deadlines for government-wide financial reporting. The transition to departmental and ministry financial statements, coupled with the implementation of IMAGIS during 1997-98, and subsequently, creates some uncertainty about the achievement of financial year end deadlines for 1997-98. One way to test the year end readiness would be to prepare a Province consolidation as at December 31, 1997, within similar timeframes for deadlines as required for year end reporting. This would enable the ministries to review their systems and processes to ensure accurate ongoing financial records and enable them to more clearly assess their year end reporting readiness. If not practical for 1997-98, then other readiness testing alternatives could be applied.

Staff of my Office will be pleased to continue to assist the Ministry's controllership function in the evolution of this project to establish readiness for the 1997-98 financial close.

Consolidated Financial Statements of the Province year ended March 31, 1997

*Volume 1 of the Public
Accounts contains the
Province's consolidated
financial statements*

The Province's consolidated financial statements are published in Volume 1 of the Public Accounts. The notes to the consolidated financial statements explain the accounting policies and reporting practices employed.

*My report on the
Province's 1996-97
consolidated statements is
dated June 13, 1997*

On June 13, 1997, I was able to report without reservation on the Province's consolidated financial statements for the year ended March 31, 1997, which are prepared on a disclosed basis of accounting. My auditor's report is reproduced on page 237 of this report.

Timeliness of Reporting

The government set June 30, 1997, as the target date for release of the 1996-97 consolidated financial statements. The Provincial Treasurer released the audited statements on June 26, 1997. The Province continues to provide the earliest reporting in Canada.

The Province continues to show leadership in financial management

In addition to achieving the deadline, management of the Department of Treasury are to be congratulated on their achievements regarding the quality of the consolidated financial statements. Further improvements were implemented in 1996-97, as discussed below.

Improvements in the past year

The Department of Treasury continued to make significant improvements to accountability reporting in 1996-97.

There have been major improvements to the financial statements—most notably, including budget information on the operations statement

One major change to the financial statements is the inclusion of budget information for each item of revenues and expenses in the statement of operations. This permits an immediate comparison of budget to actual for better accountability. Other changes arose due to improved accounting for program costs, by relocating interest costs incurred by the Alberta Municipal Financing Corporation from debt servicing costs, and restatements due to the new investment portfolio mandate of the Alberta Heritage Savings Trust Fund. There was also further disclosure of financial asset and liability valuations and of measurement uncertainty on some revenues and expenses, to comply with new accounting requirements.

Future improvements

Budget-setting process need not be an impediment to early application of existing standards

Before I discuss possible improvements, I would like to clarify one matter that concerns the impact of the budget-setting process on financial reporting. I recognize that it is preferable to introduce the impact of accounting standards changes in the budget process first, and then complete the accountability cycle by reporting on the actual results prepared on the same basis. This concept is sound for new standards. However, in the following instances the issue is not the implementation of new standards, but rather the non-implementation of existing standards. Accordingly, I encourage the Treasury Ministry to change the present practices and apply the appropriate accounting standards as soon as possible, even though the budgeting process may be different. Any variances that arise, because of accounting standards differences used for budget as compared to actual, I believe could be explained without difficulty. I note that significant changes in past years, such as accounting for liabilities arising from guarantees and indemnities and accruing pension liabilities, were not delayed due to budget-setting considerations.

The following recommendations and observations identify further improvements to the consolidated financial statements.

Basis of accounting for the Province's consolidated financial statements

Recommendation No. 26

It is recommended that the Province's consolidated financial statements be prepared in accordance with generally accepted accounting principles for the summary financial statements of a government.

There are a few areas where the accounting for the Province's financial results, position and cash flows do not comply with generally accepted accounting principles. The main areas are the reporting entity and revenues, including corporate income taxes.

Reporting entity

The need to expand the reporting entity

Since 1992-93, annual reports of the Auditor General noted that the consolidated financial statements do not include the financial results, position and cash flows of all Provincial agencies, such as Provincially-owned universities, colleges and technical institutes. Also, it was recognized that changes to the health care and education systems introduced by legislation would also affect the consolidated entity by adding regional health authorities and school boards. The ministries affected by this are Advanced Education and Career Development, Education and Health.

Treasury Board's view

In 1995, the Treasury Board expressed the view that there is no significant public benefit from expanding the reporting entity to include Provincially owned universities, colleges and technical institutes, and regional health authorities and school boards.

My view

In my view, these organizations fit within the government reporting entity, based on Public Sector Accounting and Auditing Board (PSAAB) guidance. Further, notwithstanding the legal or technical accounting discussion, I believe that the general public expects that these entities are all within the government's domain. Certainly, the general public is well aware of the public funding provided to those organizations by the Province and of the controls over their activities that are established by the Provincial government.

Government's discussion of the issue

In *Budget '94*, the government had included in Financial Management Issues a discussion on "The Government's Consolidated Reporting Entity: Should it be Expanded?" That discussion provided very useful background information and identified several of the key management and accounting policy issues that need to be addressed.

Progress needs to be made

Because of the importance of the issue, I believe that progress needs to be made. The experience gained as the government moves to implement ministry consolidations for the existing reporting entity may provide some useful insight into expanding the entity.

Extent of compliance with accounting standards to assist business decisions

My staff will continue to assess the extent to which the basis of accounting used to report the Province's consolidated financial results, position and cash flows is appropriate.

The amounts are significant

In the 1995-96 Annual Report of the Department of Health, some summary information is provided on the financial impact of regional health authorities which shows that the amounts are significant. For example, the total of assets of those entities was about \$3 billion.

Revenue

In last year's annual report (page 174), I recommended that the Treasury Department record all revenue on the accrual basis, and the government accepted in principle.

Except for corporate income taxes, departments are able to calculate all revenue accruals

With the exception of corporate income taxes (discussed below), the departments responsible for the collection of revenues were able to calculate the accrual at March 31, 1997. In total, the accruals amounted to approximately \$160 million. The Department of Treasury indicated that the accruals will be booked in the consolidated financial statements as soon as practicable.

Corporate income taxes

Accruing corporate income tax is complex

I recognize that the accrual of corporate income taxes is complex, and the matter has been reviewed in some depth by the Treasury Department in consultation with my staff over the past two years.

Using basic information, we estimate the accrual is in the \$150 million to \$200 million range

In preparing a preliminary model solution, my staff used basic taxation information presently available to estimate the amount of the accrual. Our calculations estimate the year end accrual to be in the range of \$150 million to \$200 million.

The Department is making progress

I understand that the Department is looking at collecting information needed to refine a preliminary accrual model that had been constructed previously. Current modeling by the Department indicates a year-end accrual amount in a range similar to our preliminary estimations. I encourage the Department to implement accrual accounting as soon as practical.

Program costs

It is again recommended that valuation adjustments be allocated to program costs in the consolidated financial statements.

Valuation adjustments are shown as an expense, and amount to \$83 million

Certain losses arising from guarantees and indemnities, and provisions for losses, doubtful accounts and loans, which in 1996-97 amounted to \$83 million, are included in the consolidated Statement of Operations as an expense described as valuation adjustments. An example of the nature of these items is a provision for student loans that should be allocated to the education function.

In last year's annual report (page 176), I pointed out that valuation adjustments are not associated with a particular program or department. Including losses from guarantees and indemnities and other provisions with a department's other program costs would enable program decisions to be based on complete costs.

The recommendation is accepted

The government has accepted the recommendation in principle. The Department of Treasury has acknowledged the need to allocate costs to programs where practicable.

Capital assets

In last year's report (page 176) I commented that the estimated cost and amortization of capital assets have been disclosed in a note to the consolidated and General Revenue Fund financial statements since 1993-94.

PSAAB's preliminary views were implemented early

The Department of Treasury considered including capital assets in the balance sheet at March 31, 1996. However, based on current thinking at that time by the Public Sector Accounting and Auditing Board (PSAAB), and the present practices of other Canadian governments, it was decided to limit the changes to those suggested by PSAAB.

Alberta is a leader in moving to full costing, to improve the ability to make business decisions

In July 1997, PSAAB concluded its studies on capital asset accounting. I am pleased to report that due to the Treasury Ministry's foresight, the Alberta government's accounting policy on capital assets is substantially similar to the new PSAAB standards. Thus Alberta is one of the leaders in Canada in this area. As a result, Alberta's practice in accounting for costs of capital assets as they are consumed, rather than when acquired, assists government to make sounder business decisions.

A difficulty with the PSAAB model is that it still permits the measure of the Province's annual surplus to be expenditure based (acquired) rather than expense based (consumed). Consequently, the Province's annual surplus is determined by decisions on the timing of the acquisition of new capital assets, particularly for infrastructure.

Method of consolidating Alberta Municipal Financing Corporation

In the 1995-96 annual report (page 178), it was recommended that the financial statements of the Alberta Municipal Financing Corporation (AMFC) continue to be included in the Province's consolidated financial statements on a line-by-line basis.

The public needs to continue to know the full extent of the Province's consolidated assets, liabilities, revenues and expenses.

I am satisfied that this accounting problem has been resolved.

General Revenue Fund year ended March 31, 1997

The General Revenue Fund comprises the transactions of 18 departments and the Legislative Assembly

The financial statements of the General Revenue Fund report the revenues and expenditures of the 18 government departments and the Legislative Assembly, including its Legislative Officers, together with the financial assets and liabilities they administer. Issues affecting government departments are reported under the name of the department.

I was able to report without reservation on the General Revenue Fund financial statements for the year ended March 31, 1997. The date of my report was June 13, 1997.

With the implementation of ministry and departmental financial statements in 1997-98 there will likely be less focus on the General Revenue Fund financial statements in future.

Crown-Controlled Organizations

Details of Crown-controlled organizations are disclosed in Volume 3, Section 3, of the 1996-97 Public Accounts.

Section 16 of the Auditor General Act provides the Auditor General with access to information concerning these organizations if the Auditor General is not the auditor of the organization.

All information needed by the Auditor General has been supplied

I am pleased to report that all of the information which I required to properly fulfill my obligations concerning these organizations has been made available to me.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Treasury for the year ended March 31, 1997. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 16 of this report, I have provided a summary of the reasons for reservations in my first auditor's reports on Ministry and Department financial statements.

Department of Treasury year ended March 31, 1997

In addition to the annual financial statement audit, which resulted in the reservations described above, the following work was completed:

- A review of the annual budget process and the quarterly report process.
- An examination of the investment policies of various Provincial entities which hold and manage significant financial assets outside of the Department.

- A review of the policies used and values reported for the Province's loans, guarantees and long-term investments.

In addition, as a prelude to the full implementation of the Government Accountability Act in 1997-98 requiring ministry annual reports, including ministry and departmental financial statements, my staff assisted ministries by reviewing their 1996-97 financial statements and identifying areas for improvement. My comments on this assignment have been noted on page 198.

Further, senior members of my staff have participated as advisors to working groups as follows:

- Departmental and ministerial financial statements and annual reports inter-Ministry group and steering committee, and
- PeopleSoft financials, human resources and technical steering committees.

Our participation enabled the views of the Office to be shared with the members of the group as they progressed towards decisions.

I am pleased that our professional resources are being sought and used in this manner.

Consolidated Budget

Consolidated budget and forecasts

I had previously recommended several improvements in budgeting which have been implemented

Over the past few years, this Office has made several recommendations, which have been implemented, to improve the government's accountability by establishing a meaningful "front-end" to the accountability cycle, namely, the consolidated budget process. I acknowledge that the government has made significant improvements to the budget and forecasting process in the past few years and, looking ahead, there will likely be further refinements to the process.

*Possible improvements in
future years to be
considered*

My staff have had preliminary discussions with the Department of Treasury on possible future improvements to the budget process. These include presenting budgeted statements of financial position and changes in financial position in the consolidated budget. Another suggested improvement discussed by my staff was presenting longer-term budget information, in an abbreviated form, to supplement the existing three-year view in the annual budget. The government already looks beyond the three-year period for the elimination of net debt and pension obligations, capital asset acquisitions and when considering future financing and investing decisions.

For this year, my comments and recommendations are that the government's financial decision making process would be enhanced by further improvements to budgeting, reporting and forecasting.

Quarterly report

Recommendation No. 27

It is recommended that the Department of Treasury report the actual results to date for revenues, expenses and surplus on the accrual basis in the quarterly report's Consolidated Fiscal Summary.

When financial information for each quarter is known, a quarterly report is released to the public. The report includes an annual forecast of the expected revenues, expenses and annual surplus for the fiscal year, and the actual results to date.

*The quarterly results are
cash based*

In the actual results to date, revenues, expenses and the surplus are recorded on the cash basis, except for investment income and debt servicing costs which are reported on the accrual basis. Cash reporting in the quarterly financial reports differs from the accrual basis used for the annual results shown in the audited consolidated financial statements of the Province. It also differs from the accrual method used to prepare both the Province's consolidated annual budget and the updated annual forecast amounts reported quarterly.

*The accrual basis of
accounting is more useful*

The accrual basis of accounting is generally recognized as being more useful because revenues and expenses are recorded in the period in which they are earned or consumed,

rather than when they are received or paid for. The latter method permits manipulation of results depending on the timing of the payments.

The present cash basis is inconsistent with the consolidated financial statements and consolidated budget

It would be useful to users to present the quarterly report's year-to-date financial results on the same accrual basis as the consolidated financial statements and as the consolidated budget.

Credibility could be added to actual results

Because the quarterly actual information is virtually cash-based, I cannot add credibility to it at present. However, implementation of the accrual basis of reporting would enable me to add credibility to the quarterly financial information by providing management with a moderate level of assurance.

Credibility could be added to forecast results

In addition, implementation of this recommendation could result in my Office reporting publicly that the assumptions used by management in preparing the forecast information in the quarterly reports are suitably supported and consistent with the plans of the government, and that the forecast reflects such assumptions.

Quarterly budgets

It is recommended that when the Department of Treasury prepares the Province's annual consolidated budget, the planned financial results for each of the four quarters also be included.

I made the same recommendation in the 1995-96 annual report (page 172). At present, only annual consolidated budgets are prepared.

Quarterly budgeting would improve forecasts of annual results

Quarterly budgeting would facilitate the comparison of the quarter's actual financial results in relation to budget targets and so assist business decisions. For example, unfavorable variances from budget would be highlighted earlier and would allow ministries to take timely action to address the underlying causes of the variances over the remainder of the fiscal year. Explanations of significant variances from budget and the planned corrective actions could be included in the quarterly budget report and enhance the government's accountability.

The recommendation was accepted

The Department of Treasury agreed to this recommendation in principle, but identified some initial concerns expressed by some ministries about the potential complexity of implementation. The Department believes that the upcoming budgeting module of the government's recently initiated IMAGIS information system will assist implementation of this recommendation.

Revolving Funds

Revolving funds are not working as intended and are not necessary

In last year's annual report (page 181), it was noted that revolving funds are not working as intended and are not necessary. The government should be able to fully cost its programs and services without the expense of operating revolving funds.

The recommendation was accepted

This recommendation has been accepted and some progress has been made in the past few years to reduce the number of revolving funds.

As part of my ongoing review, I will monitor progress on this matter and make specific recommendations to those ministries which continue to operate revolving funds. For example, in this report (page 67), I have made a recommendation on this matter to the Ministry of Agriculture, Food and Rural Development.

Legislative authority

Revolving fund programs have been transferred to other funds

Over the last two years, several programs (including associated assets and surpluses or deficits) have been moved from one revolving fund to one or more other revolving funds or to the General Revenue Fund. The program transfers resulted from government reorganizations.

There is no legislative authority for the transfers

In the past two years (page 183 in the 1995-96 report), my Office raised concerns over transfers involving the Community Development, Economic Development, Environmental Protection and Agriculture, Food and Rural Development Revolving Funds and the General Revenue Fund. My audit opinions attached to those 1996-97 Revolving Funds financial statements referred to legislative non-compliance that took place in the past. I comment on this situation again on page 237 of this report where there is a discussion on reservations in my audit reports on financial statements.

The recommendation was accepted

The Department has agreed that the authority for any future transfers will be clarified.

Pension liabilities

In my two previous annual reports, I recommended that the Alberta Pensions Administration Corporation assist the Public Sector Pension boards to improve the information communicated to employers. I am pleased to report that during the past year, the Corporation has made significant improvements in the information and assistance provided to employers. The Corporation is continuing to further expand and improve the information provided to employers.

Assumptions in Business Plans

As a result of my examination of the government's involvement in the Swan Hills Special Waste Treatment Facility in 1994-95, I made two recommendations concerned with ensuring that sufficient information was included in three-year business plans of all government entities.

*One concern was
addressed in 1995-96*

I reported in 1995-96 (page 188) that one of my concerns had been addressed by management.

*The other concern was
addressed in 1996-97*

In the 1995-96 annual report (page 189), it was recommended that the three-year business plan instructions issued by the Department of Treasury require appropriate disclosure of the major assumptions, and in particular the downside risk to ministry plans, when proposed major programs or capital expenditures are dependent on future events.

The Department agreed with the recommendation in principle, but stated that public disclosure of certain major assumptions in three-year business plans could be prejudicial to the government's position or be harmful to third parties. This could arise, for example, for contract negotiations or where there were protection of privacy concerns.

Our review of the 1998-2001 Business Plan instructions indicates that this recommendation has been addressed.

Financial Assets and Liabilities

Review of outstanding loans, guarantees, and investments

In the current year, I was asked to review and provide an opinion on the policies used by the government to value outstanding loans, guarantees, and investments and in addition to provide an opinion on the values currently assigned by management, particularly the value of the investment in the Alberta Pacific Pulp Mill Project (Al-Pac).

Improvements are needed regarding the disclosure and reporting of loans, loan guarantees and investments

I completed my review and provided a letter to the Provincial Treasurer on June 5, 1997. In my opinion, the government's loans, guarantees and investments have been appropriately measured. I did however raise concerns regarding the disclosure and reporting of loans held by the Alberta Heritage Savings Trust Fund and repeated previous concerns relating to the reporting of various loan and loan guarantee valuation adjustments.

Specifically, the measurement uncertainty relating to the value of loans needs to be disclosed in the financial statements

I specifically recommended that the measurement uncertainty relating to the value of the loans to Al-Pac and Ridley Grain be disclosed in the notes to the financial statements. Ideally, the Alberta Heritage Savings Trust Fund financial statements and the consolidated financial statements of the Province should provide the nature of the uncertainty, and information regarding the sensitivity of the carrying values of the loans to changes in key assumptions. I also recommended that the notes to the financial statements disclose the significant factors that would impact the amount that might be realized upon disposition, and the likely result if the loans were sold under current economic conditions.

Although disclosed in the AHSTF financial statements, this information should also be disclosed in the Province's consolidated financial statements

I am pleased to report that the Department adopted my recommendations and included such information in the Alberta Heritage Savings Trust Fund financial statements for the year ended March 31, 1997. The consolidated financial statements of the Province however did not include any information on the measurement uncertainty relating to the loans to Al-Pac and Ridley Grain, and I therefore repeat my recommendation to the Department that such information also be disclosed in the Province's consolidated financial statements.

My concerns relating to the recording of valuation adjustments is dealt with on page 208 of this year's report.

**Investment and Debt
Management**

In 1995-96 I concluded that overall policies and procedures support effective investment risk management

Since my previous report the process has been further strengthened with the establishment of an Investment Operations Committee

In addition, a dedicated accounting function has been established

This year I focused on the \$1.5 billion in cash and investments managed by other Provincial organizations

In my 1995-96 Annual Report, I reported on a review of the risk management process that exists for all investments managed by the Treasury Department. Although overall I concluded that in my view the Treasury Department's policies and procedures support an effective risk management process, I did make recommendations which would strengthen the Department's risk management process. The most significant recommendations included the need for independent review and approval of investment risk management policies, and the need for a dedicated accounting function.

I am pleased to report that the Treasury Department has established an Investment Operations Committee made up of outside expertise to oversee all investment operations, including the review and approval of investment risk management policies. My opinion is that the independent review and approval of risk management policies is a principal aspect of governance. Management is accountable for implementing policy and therefore will not always have an objective view when it comes to evaluating policy. Although, independent review and approval of risk management policies existed for some funds managed by the Treasury Department, it did not exist for all. I believe that the establishment of the Investment Operations Committee will address my concerns.

I had also recommended that the Treasury Department establish a dedicated accounting function to increase the efficiency and effectiveness of reporting and to better meet the needs of the Investment Management Division. The Department has now established a dedicated investment and debt accounting group which I believe will assist the Department and stakeholders in monitoring the performance of management, evaluating results and planning for the future.

During the current year, I focused my review on the investment policies of Provincial entities which hold and manage significant financial assets outside of the Treasury Department. Provincial organizations hold over \$1.5 billion in cash and investments. The effective management of these significant funds is critical to both the individual organizations and to the Province as a whole.

**Investment Management
Services****Recommendation No. 28**

It is again recommended that the Treasury Department develop a business plan for the Investment Management Division to provide other Provincial organizations with investment management services.

Many Provincial organizations can likely increase returns without substantially increasing risk

My Office performed a series of audits which examined the investment policies of Provincial organizations such as colleges and regional health authorities. It was observed that most organizations examined had not integrated their investment policy with their business plan, including identifying their short and longer-term cash needs and their ability to absorb short-term losses. I believe that most Provincial organizations could improve their returns, without increasing their risk, by diversifying their investment portfolio. For instance, although most entities examined were holding funds for the long-term, the funds were primarily invested in short-term fixed-income securities, and returns ranged from 6.5% to 8% for the year. By comparison, the Scotia McLeod Bond Universe, comprised of fixed income instruments with a low level of risk and a high degree of liquidity, had an annual return of 12.4% for the period ending March 31, 1997.

Current investment policies examined do not provide sufficient direction and do not provide a basis for evaluating performance

We also found that most organizations' objectives were not clearly defined and were often generally stated as being "to maximize return without risking loss of principal". Investment objectives need to be clearly defined, including identifying the criteria which will be used to measure performance. Most organizations examined did not identify measurement criteria in their investment policies. Clear measurement criteria are necessary to allow both management and the boards to evaluate whether the investment return earned is satisfactory.

The Treasury Department needs to expand its role to ensure returns are maximized subject to acceptable risks

Based on my review, there is evidence that financial management by entities other than the Treasury Department can be improved. I believe that the Department needs to expand its investment management services for the benefit of other Provincial organizations to ensure that returns are maximized subject to acceptable risks. Investment management services should include advice on investment policies and procedures and the various types of investment products.

Department Investment and Debt Management Systems

Recording and Reporting of Derivative Activity

*The Treasury Department
uses derivatives as part of
its investment strategy*

It is recommended that the Treasury Department improve the process to record and report derivative activity.

Derivatives can be defined as any instrument which derives its value from an underlying security or market index. Derivative transactions are used by the Treasury Department for shifting asset mix, hedging interest rate and currency exposures, and for enhancing investment returns. The Department will not acquire any derivative which will increase its exposure beyond the amount of its existing holdings. The Department does not speculate in derivatives.

*The Department lacks an
effective system to record,
monitor and report on
derivative activity*

The Treasury Department manages over \$4 billion in derivative activities. The process to record, monitor and report on derivative activity relies on manual intervention as the current automated investment system is unable to link derivatives to underlying securities, requires manual intervention for derivative pricing, and does not calculate or report the exposure related to derivative activity.

*The Department should
implement controls to
ensure all derivatives are
accurately reported to
management*

Although the Department has established policies to manage the risks associated with derivative activity, the existing system does not ensure that all derivative transactions are accurately identified and reported. The result is that effective monitoring is impaired. The Department should implement controls to ensure all derivatives are accurately reported to management.

Recording and Reporting of Unmatured Debt

*The Department lacks an
effective system to record,
monitor and report on
unmatured debt*

It is recommended that the Treasury Department improve the system of recording and reporting unmatured debt by eliminating instances of duplication of effort, and by automating and integrating reports prepared by the various divisions within the Department.

The current system for recording and monitoring unmatured debt is, by and large, a manual process which requires the integration of information from three divisions within the Department. The Banking and Cash Management division maintains a custodial listing for debt instruments and derivative activity, and reports on the debt and derivative exposure amounts. The Accounting division maintains several separate manual spreadsheets to calculate amortized

book value, exchange gains and losses for debt instruments and schedules of debt expense. The Liability Management group prepares separate reports on the hedged and unhedged, floating and fixed amounts for debt instruments. Within each area, several different people are involved in the process.

The Department has recognized the need to improve the systems to record and report unmatured debt

The current system for recording and managing unmatured debt needs to be improved. We noted in some instances a duplication of effort. In addition, the reports are not integrated and do not facilitate effective reporting and monitoring. I also believe that the maintenance of separate systems increases the risk of error. It should be noted that the Department did complete a preliminary review of the systems used to record and report debt during the year and has also concluded that improvements can be made.

Alberta Treasury Branches year ended March 31, 1997

Alberta Treasury Branches' three-year business plan outlines five key goals aimed at repositioning the organization in the market place and improving its operational efficiencies.

The five key goals focus upon developing a new organization that will better reflect customer needs; ensuring staff are appropriately trained; launching a marketing plan targeting individual financial services, agricultural operations and independent business; ensuring the loan portfolio continues to be fairly valued; and improving management information services and public reporting.

The three broad types of risk Alberta Treasury Branches faces come under the headings of credit risk, market risk and operational risk.

Credit risk relates to the failure of borrowers to make repayments. Alberta Treasury Branches' challenge is to ensure its credit-granting process is sound and that appropriate lending decisions are based on realistic security values. To assist Alberta Treasury Branches with this challenge, my staff examined the systems used at branches to approve and monitor small loans.

Market risk includes the risks associated with losses resulting from changes in prices in foreign exchange markets, equity markets, and commodity markets. My staff examined the management of systems development projects, including those systems designed to manage risk.

Operational risk includes the risk of losses resulting from inadequate protection of assets, unreliable financial reporting, and non compliance with legislation and policy. My staff reviewed the draft of the new Alberta Treasury Branches Act and provided suggestions for improvement. My staff also examined compliance with respect to existing human resource management legislation.

In addition to the annual financial audit, the following work was completed:

- Reviews of quarterly results were performed and review reports were issued to the Board of Directors.
- An examination of the management of systems development projects, including the transition of automated systems to year 2000 compliance.
- An examination of systems used at branches to approve and monitor small loans.
- An examination of the use of asset management corporations.

Legislation

It is recommended that Alberta Treasury Branches comply with legislation respecting the use of asset management corporations and the recruitment and compensation of staff.

Alberta Treasury Branches has not complied with legislation in respect to the use of several asset management corporations and the recruitment and compensation of staff. In the latter case, the non-compliance stretches back for many years. If Alberta Treasury Branches believes that compliance with legislation inhibits what would otherwise be a sound business decision, then an approach to the Provincial Treasurer should be made to seek a legislative amendment.

Asset Management Corporations

At Alberta Treasury Branches' request, I considered whether asset management corporations can be used to administer and dispose of foreclosed property and other security realized from defaulting borrowers. Legal opinions from my internal and external counsel indicated that in several cases Alberta Treasury Branches was not in compliance with applicable legislation.

Alberta Treasury Branches is taking action to correct this non-compliance with legislation.

Human Resources - Recruitment and Compensation

By Order in Council (OC) 2170/66, as amended by several OCs through 1972, separate classification and pay plans were established for Alberta Treasury Branches employees. These plans have not been used, updated, or repealed since the early 1970s. Salary payments made contrary to the OCs, therefore, were not authorized by legislation.

*Recruiting procedures are
contrary to the Public
Service Act*

Alberta Treasury Branches has carried out its own recruiting for many years without obtaining a formal delegation of the Provincial Treasurer's authority, under the Public Service Act (PSA), to recruit and select Alberta Treasury Branches employees. Alberta Treasury Branches, under the PSA, is also required to fill vacant positions under limited competition to Alberta Public Service employees or open competition administered by the Personnel Administration Office unless the Public Service Commissioner grants an exemption. Instead, Alberta Treasury Branches has mostly promoted internally without receiving prior permission from the Commissioner.

*Alberta Treasury Branches
will no longer be subject to
the Public Service Act
under the new Act*

Under the new Alberta Treasury Branch Act, Alberta Treasury Branches will no longer be subject to the PSA. The new Alberta Treasury Branches Act, however, has not yet been proclaimed in force. Alberta Treasury Branches should comply with the PSA until the new Act is proclaimed.

General Loan Loss Provision It is recommended that Alberta Treasury Branches expand the methodology for calculating a general loan loss provision by establishing a system that adjusts the provision based upon historic loan loss data and relevant economic indicators.

All credit risks should be considered when establishing general loan loss provisions

In a letter to the Acting Superintendent in August 1995, I recommended that Alberta Treasury Branches consider factors such as the credit risks associated with industry sectors, geographical regions and small dollar value loans when establishing general loan loss provisions.

Risk rating systems need continuous updating

I acknowledge the considerable progress made by Alberta Treasury Branches this year in calculating a general loan loss provision. Currently, the general provision is based on a combination of the available loss experience measured in populations of specific small-value loans, and amounts booked by certain chartered banks. As a basis for improving the data on which the March 1998 general provision will be calculated, I understand that Alberta Treasury Branches intends to expand its risk rating system to cover all loans. The general provision will then be calculated by applying selected percentages against all the loans in certain risk categories. My concern with this approach is that Alberta Treasury Branches needs further information to support the selection of the percentages applied against each risk category.

More support is required for general loss provisions

A general loan loss provision should be supportable and consistently applied. This could be achieved by developing a model that uses previous loan loss experience and economic factors to calculate the general loan loss provision. This model should establish relationships between loan loss experience and such Alberta factors as inflation rates, interest rates, unemployment rates, industry activity such as retail sales and regional housing starts and sales, and commodity prices such as oil and agriculture prices.

Models help measure and manage risk

I acknowledge that creating a model will involve accumulating considerable data and developing perhaps complex algorithms. Nevertheless, I believe that once created, the model will provide excellent information to help measure and manage the risk within the loan portfolio.

Year 2000 Compliance

It is recommended that Alberta Treasury Branches give priority to ensuring that all issues relating to year 2000 are addressed.

No comprehensive plan exists to address year 2000 issues

Although Alberta Treasury Branches has begun work in some areas that will be affected by the year 2000, there is as yet no comprehensive plan to ensure that all year 2000 issues will be addressed.

There are a large number of systems that need to be year 2000 compliant

Alberta Treasury Branches has a complex information technology environment that is critical to its banking operations. There are a large number of systems, some of which are supported in-house, while others were purchased from a variety of vendors. These central systems interface with each other, and with systems outside the organization.

Comprehensive plan should identify resource needs

Alberta Treasury Branches has begun work on ensuring that the central banking system (Synergy) is year 2000 compliant. A consultant recently estimated the total cost of making all Alberta Treasury Branches' systems year 2000 compliant would be \$15.2 million and would take 77.3 person years. A comprehensive plan for the project that covers user-resource requirements and the comprehensive testing and simulating of operations in year 2000 was not available at the time of my staff's examination. Such a plan is needed to ensure that the time and resources (both staff and technology) will be available to complete the project. The plan should also address hardware and operating system needs, micro-based computer applications, as well as non-information technology needs such as forms and analog systems for supporting security environments. I understand that such a plan will be reviewed and approved by the year 2000 Steering Committee on in October 1997.

System Testing

It is recommended that acceptance testing of new or revised computer software systems includes determining whether the system will satisfy Alberta Treasury Branches' pre-defined business requirements.

User acceptance testing needs to address business requirements

While reviewing the introduction of new banking systems, my staff noted that user acceptance testing was based on neither the defined business requirements, nor the anticipated benefits. For example, testing of certain components which were designed to help administer and evaluate commercial loans, focused only on the attributes of the presentation and

output produced by the software. There was little or no testing to determine whether the software would meet business requirements such as;

- ability to support the targeted business processes, in this case, the administration of loan applications and approvals; and
- monitoring whether the outputs and results, in particular the risk rating of the loan applications, would be consistent with Alberta Treasury Branches' policies and standards.

Improved user testing may help in realizing anticipated benefits

My staff have observed over the years that software introduced into the branches has not always resulted in the anticipated benefits such as the reduction of costs or improved information to manage. Improved user-acceptance testing of the nature described above may help in this regard.

User departments should bear development costs

Moreover, the cost of development projects is not charged back to user-department operational budgets. With user departments bearing the full cost of development, the benefits expected to be derived from those costs would be considered more carefully, which in turn would provide valuable information to set priorities for development projects.

System abandonment costs total \$8 million

If better user testing had taken place in the design phase, the recent abandonment of much of the development of the new banking system, together with the write off of hardware costs and recognition of contract termination costs totaling \$8 million, may have been avoided.

Credit Analysis and Security Valuation

It is recommended that Alberta Treasury Branches provide additional training to lending officers in analyzing customers' business and repayment abilities, and in determining the acceptability of security values and documentation when approving credit applications.

Complete analysis of loan applications should occur

Although a borrower's ability to service debt is of primary importance when evaluating credit applications for approval of loans, a number of other factors should also be analyzed according to Alberta Treasury Branches' loan policies. My staff noted that of the 98 credit applications reviewed, 39% lacked reference to such important factors as evaluating the

present and past history of the customer's ability to pay including prior banking experience, economic factors, recent industry developments, feasibility of business plans, security provided, management experience and the quality of the customer's staff. An incomplete or faulty analysis supporting approval of a loan can result in Alberta Treasury Branches being unduly exposed to loss.

*Early warning signs
should be acted upon*

Early warning signs of increasing risk are sometimes ignored or too much consideration is given to mitigating factors when evaluating customers' business and repayment prospects. In particular, negative cash flows or breaches of financial covenants such as adverse debt servicing or working capital ratios were ignored in favor of the adequacy of security provided. However, security is a secondary method of loan repayment when cash flows can no longer service the debt.

*Security documentation
should be more complete*

It is expected that credit applications would be supported by documentary evidence containing legal descriptions of tangible security together with evidence that a charge against the security has been registered. It is also expected that Alberta Treasury Branches' prescribed amount of security is taken to secure the loan. In 54% of files examined, details of the security provided, or the method used to arrive at or confirm its current market value, or the time or nature of any charge registered was not documented when estimated values were used to support security values. In absence of this information it is difficult to evaluate the quality of the credit approval or loan. Also, in 12% of the files examined an inadequate amount of security was taken thereby exposing Alberta Treasury Branches to loss.

*Specific training may be
required*

Training appears to be needed to assist branch managers in recognizing warning signs of problem loans and in documenting and analyzing financial information and security values in credit applications.

*Policies will be improved
and training programs
offered*

I understand that Alberta Treasury Branches will be improving policies, revising the credit application and developing and introducing training programs in all aspects of the credit cycle. The training programs will address analysis of client information, security valuation and documentation, and understanding and recognizing the early warning signs of problem loans and how to manage these loans.

Annual Reviews and Loan Monitoring

It is recommended that Alberta Treasury Branches comply with its policy for reviewing loans within six months of the corporate borrower's year end and that any loans experiencing difficulties be monitored through more frequent reporting and reviewing requirements.

*Borrower's financial
position can change
quickly*

As a company's financial position can change quickly, the most current financial statements can provide valuable information when assessing the borrower's ability to repay loans. Alberta Treasury Branches' policy is to review loans annually within six months of the borrower's year end. In 33 of 98 files examined, loans had been reviewed and renewed based on financial information that was 7 to 11 months old.

*Financial information
should be updated*

In 12 other files, the loans had either been approved for another year without evidence of updated cash flow projections and security valuations from the financial information available, or the loans were already experiencing difficulty but a proposed action plan for correcting the situation was not provided.

*Loan renewal policy
should be followed*

These situations suggest that the loan review and renewal procedures may not be working effectively to identify and promote corrective action on loans to borrowers whose financial situation is deteriorating. Quicker intervention would also decrease the risk and amount of loan losses.

*Policies are being
reviewed*

I understand that Alberta Treasury Branches will be reviewing and strengthening its policies for reviewing, monitoring, and managing loans. Until the policies are in place, Regional Credit Managers will begin rigidly policing completion of credit reviews within existing policy time frames.

On-going Audit Work

Allegations of Inappropriate Business Practices

In the 1995-96 annual report, I reported that I received, and by other means became aware of, allegations of inappropriate business practices at Alberta Treasury Branches. My audit work, in conjunction with the Chief Inspector of Alberta Treasury Branches, is still in progress.

Administration of Large Commercial Loans

In the 1995-96 annual report I recommended that Alberta Treasury Branches adopt a more business-like and profit-orientated approach when approving and monitoring large commercial loans.

The organizational structural changes, together with the staff training programs, are intended to address the problems experienced with large commercial loans. My staff will continue to monitor progress with regards to these initiatives.

Computer System Enhancements

In the 1995-96 report, I recommended that Alberta Treasury Branches automate, and make more reliable and comprehensive the reporting of information on connected accounts, classified advances, letters of guarantee, and letters of credit.

There was some progress made during 1996-97 with regards to improving the information in the banking system. However, with the management decision to abandon much of the development of the new banking system (see page 225), further enhancements have been delayed. My staff will continue to monitor progress with future developments of the banking system.

Provincial Trust Funds

The Province administers public money over which the Province has no power of appropriation. It is therefore not included in the Province's consolidated financial statements. At March 31, 1997, trust funds under administration amounted to \$16,771 million. Summarized information of the funds making up this amount is provided in Note 7 to the consolidated financial statements.

Other entities

Financial audits of the following were also completed:

473654 Alberta Ltd. - year ended December 31, 1996
**Alberta Heritage Foundation for Medical Research
Endowment Fund** - year ended March 31, 1997
Alberta Heritage Savings Trust Fund - year ended
March 31, 1997
Alberta Heritage Scholarship Fund - year ended
March 31, 1997
Alberta Insurance Council - year ended
December 31, 1996
Alberta Municipal Financing Corporation - year ended
December 31, 1996
Alberta Securities Commission - year ended
March 31, 1997
ARCA Investments Inc. - year ended March 31, 1997
Consolidated Cash Investment Trust Fund - year ended
March 31, 1997
Credit Union Deposit Guarantee Corporation - year
ended December 31, 1996
N.A. Properties (1994) Ltd. - year ended March 31, 1997
NFI Finance, Inc. - year ended December 31, 1996
Orion Properties Ltd. - year ended December 31, 1996
SC Financial Ltd. - year ended December 31, 1996
The Alberta Government Telephones Commission - year
ended December 31, 1996
Treasury Revolving Fund - year ended March 31, 1997

Pension related:

For the year ended December 31, 1996:

Alberta Pensions Administration Corporation -
year ended December 31, 1996
Local Authorities Pension Plan
Management Employees Pension Plan
**Public Service Management (Closed Membership)
Pension Plan**
Public Service Pension Plan
Special Forces Pension Plan
Universities Academic Pension Plan

Pursuant to section 12(b) of the Auditor General Act, the Auditor General may, with the approval of the Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 1996-97 fiscal year, the Auditor General acted as auditor of the following organizations:

- Alberta Hospital Edmonton Foundation
- Calgary Regional Health Authority
- Capital Health Authority
- Chinook Regional Health Authority
- East Central Regional Health Authority
- Fairview College Foundation
- Grande Prairie Regional College Foundation
- Headwaters Health Authority
- Northern Lights Regional Health Authority
- Olds College Foundation
- Peace Regional Health Authority
- Regional Health Authority 5
- The Trustees of the Academic Staff Benefits Plans of
The University of Alberta
- Western Irrigation District
- WestView Regional Health Authority

Legislative Mandate

The Office of the Auditor General of Alberta was established in 1978 and operates in accordance with the Auditor General Act. The Auditor General is the auditor of all government departments, funds containing public money, and Provincial agencies.

The Act deals with my responsibilities as Auditor General by stating what I must and can report, to whom, and when.

Section 18 reports

In section 18 reports I state whether, in my opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown.

The section 18 report on the Province's 1996-97 consolidated financial statements is reproduced on page 237 of this report. Similar reports were issued on the financial statements of all entities of which I am the auditor. These reports are attached to the related financial statements, most of which are published in the Public Accounts of the Province.

Section 17 reports

Under section 17 of the Auditor General Act, the Legislative Assembly or the Executive Council may ask me to perform special duties. Whether those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 1996-97 fiscal year, I received no requests to perform a special duty under section 17.

Section 20 reports

The Auditor General can report under section 20 to the Legislative Assembly on any matters of importance or urgency which, in his opinion, should not be delayed until the next annual report.

No reports have been issued under section 20 of the Act since the last annual report.

Section 28 reports

Reports issued under section 28 of the Act are known as management letters. The purpose of management letters, as explained more fully on page 235 of this report, is to communicate to management recommendations for improving financial administration.

Management letters are addressed to the deputy minister or senior executive officer of the audited entity. A copy is sent to the minister responsible for the entity except for those Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Mission

The following statement continues to guide the work of the Auditor General's Office:

The mission of the Office of the Auditor General of Alberta is to identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans.

Proposing solutions for the improved use of public resources

All of our clients face risks which, if not well understood and managed, could jeopardize their success. Business risks are sometimes difficult to identify and they are constantly changing. We believe we can maximize the value of our advice and recommendations by helping our clients to identify their changing business risks. We can then help them address and manage these risks, and thereby improve their programs. We do this by providing professional services which help them find opportunities to reduce or eliminate their risks, to improve their use of public resources, and to better meet their goals.

Adding credibility

Each set of financial statements included in the Public Accounts reflects management's view of the entity's financial position at year end, the results of its operations and the changes in its financial position.

My responsibility is to bring professional judgment and skill to the examination of these financial statements in order to provide an opinion on them. The result is an Auditor's Report designed to add credibility to the assertions of management.

The Public Accounts Committee acts on behalf of the Members of the Legislative Assembly in examining the government's management and control of public resources. My annual report, and the audited financial statements in the

Public Accounts, are used by the Committee in its examination of the use and control of public resources.

We believe that effective performance reporting, which includes financial statement reporting, is essential for effective governance and accountability. We encourage our clients to develop improved measures of performance. Through our assurance services, we will also validate the resulting information and help to interpret expanded performance reports. We believe that measuring results and linking them to specific costs is critical to evaluating cost effectiveness, and will lead to improved management of public resources.

Types of audit

Throughout section 2 of this report, the term “financial audit” is used. In this context, a financial audit encompasses:

- audit procedures considered necessary to support the expression of an opinion on financial statements,
- a review of action taken in response to previous audit observations and recommendations, including those reported to the Legislative Assembly, and
- an examination of transactions and activities examined for other auditing purposes to determine whether they comply with the significant financial and administrative authorities that govern them.

For some audit entities, work additional to the financial audit was completed. Such additional work involves examining systems in depth. The scope of the additional audit work undertaken for 1996-97 is identified in section 2 of this report.

All audit findings, conclusions and recommendations arising from all types of audit activity relating to 1996-97 have been reported to management.

Reporting Process

The audit observations and recommendations contained in this report have undergone a rigorous process aimed at providing all concerned with opportunities to challenge or provide input.

Meetings (exit conferences and audit committee meetings) were held at the conclusion of audits to discuss significant audit findings and concerns. The matters discussed depended on the nature of the audit, but included typically the form and content of financial statements, valuation provisions and allowances, the accounting policies employed, recommendations for systems improvements, and observed instances of non-compliance with legislative authorities. These meetings were attended by representatives of this Office and senior financial and other management officials of the audited entities.

The main purposes of these meetings were to ensure that senior management and boards understood the audit findings, to discuss recommendations, and to provide opportunities for management comment and reaction before the audited financial statements and the letter to management were issued. Minutes of these meetings were prepared and circulated by my staff to minimize the risk of misunderstandings on matters discussed.

Audit recommendations judged to be of concern to management were incorporated into management letters to the responsible deputy minister or senior executive officer. Copies of management letters were forwarded to the appropriate minister, except for those addressed to Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Subsequently, recommendations considered important enough to be reported to ministers, Public Accounts Committee members, other MLAs and the public were selected for inclusion in this report. When determining significance, I take into account the nature and materiality of the matter relative to the individual entity and the government as a whole.

Finally, before this annual report was published it was made available to the Audit Committee. Also, all ministers and deputy ministers or chief executive officers were informed of observations that relate to areas for which they are responsible.

The Provincial Treasurer, on behalf of the government, responded publicly to the numbered recommendations in the 1995-96 annual report on February 11, 1997 in *Budget '97*. Of the 35 numbered recommendations, 30 were accepted, three were accepted in principle, and two were under review.

Reservations in Audit Reports on Financial Statements

Section 19(2) of the Auditor General Act requires the Auditor General to provide details in his annual report of reservations of opinion in reports issued on financial statements. This report shows that five such reservations were issued. Four were issued because the financial statements of:

- Fairview College Foundation
- Grande Prairie Regional College Foundation
- Northlands School Division No. 61, and
- Olds College Foundation

include revenue which could not be audited for completeness in accordance with generally accepted auditing standards.

One reservation of opinion was issued because the Agriculture, Food and Rural Development Revolving Fund's financial statements contained capital assets which did not include the carrying value of certain land improvements associated with Provincial grazing reserves used in generating revenue.

In addition, as described in detail on page 16, I reserved my opinion on most ministry and departmental financial statements because of significant departures from generally accepted accounting principles.

In all other cases, I was able to report without a reservation of opinion.

Other Information Included in Audit Reports on Financial Statements

Additional information

Auditor's Reports for the financial statements of the:

- Agriculture, Food and Rural Development Revolving Fund,
- Community Development Revolving Fund,
- Economic Development and Tourism Revolving Fund, and
- Environmental Protection Revolving Fund

contained additional information describing transfers of assets and liabilities between funds which were not authorized by legislation. Although the Financial Administration Act does not provide for transfers between revolving funds, in my opinion, there was no inappropriate use of public funds.

In addition, the Auditor's Report for the Alberta Alcohol and Drug Abuse Commission contained additional information about the Commission having exceeded its authority as defined in the Alcohol and Drug Abuse Act.

Report Under Section 18 of The Auditor General Act

Section 18 of the Auditor General Act requires that I report to the Legislative Assembly on the financial statements of the Crown for each fiscal year. The report is to include an opinion on the financial statements and any other comments related to my audit of the financial statements, and to state my reasons for any reservation of opinion.

Opinion on the financial statements

My Auditor's Report to the Members of the Legislative Assembly on the financial statements of the Crown for the year ended March 31, 1997, is attached to the consolidated financial statements and reads:

"I have audited the consolidated statement of financial position of the Province of Alberta as at March 31, 1997 and the consolidated statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of Treasury Department management. My responsibility is to express an opinion on these financial statements based on my audit.

"I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

"In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Province of Alberta as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 1 to the consolidated financial statements."

The Auditor's Report was dated June 13, 1997.

Public Accounts

Audit

The Public Accounts of the Province are published in four volumes:

Volume 1 - Annual Report of the Government of Alberta and the Consolidated Financial Statements of the Province of Alberta

Volume 2 - Financial statements of the General Revenue Fund, revolving funds and regulated funds

Volume 3 - Financial statements of Provincial agencies, commercial enterprises and Crown-controlled corporations

Volume 4 - Financial statements of universities, public colleges, technical institutes and health boards and authorities

All of the information in the Public Accounts is covered by Auditor's Reports except as follows:

- Provincial Treasurer's Accountability Statement and Annual Report of the Government of Alberta, and the Statement of Responsibility for the Consolidated Financial Statements approved by senior management of Treasury Department in Volume 1.
- Sections 2 and 5 of Volume 2 as follows:

Section 2 of Volume 2 contains details of General Revenue Fund expenses and revenue for each department. I have not expressed an audit opinion on this information. The information is extracted from the General Revenue Fund's financial records which were audited for the purpose of expressing an opinion on the General Revenue Fund financial statements. The audit opinion on the General Revenue Fund financial statements explains that the work done was sufficient to obtain reasonable assurance whether the financial statements as a whole were free of material misstatement. The work was not intended to obtain assurance as to whether the information contained in individual departmental statements in section 2 of Volume 2 was free of material misstatement.

Section 5 of Volume 2 contains supplementary information required by legislation or by direction of the Provincial Treasurer. I have expressed an audit opinion on the Salaries and Benefits Disclosure information and on the financial statements of seven pension plans included in this section. I have not expressed an audit opinion on the remainder of the section but I have determined that the information is consistent with the audited information in the Public Accounts.

Consolidated financial statements

The 1996-97 consolidated financial statements report on the Province's financial condition, results of operations and cash flows. Volume 1 of the Public Accounts also includes the Annual Report of the Government of Alberta.

The consolidated financial statements are an aggregation of most, but not all, of the entities controlled by the Province of Alberta. They combine the operating results, financial positions and cash flows of all the entities whose financial statements are published in Volumes 2 and 3 of the Public Accounts, including for example, the General Revenue Fund and the Alberta Heritage Savings Trust Fund. The consolidation, however, does not include certain Provincial agencies such as universities, public colleges and technical institutes, and regional health authorities and school boards.

Accounting Principles and Auditing Standards

The principal source of generally accepted accounting principles and auditing standards is the Handbook of the Canadian Institute of Chartered Accountants. In addition, the Public Sector Accounting and Auditing Board of the Institute issues accounting and auditing statements. These statements apply to and guide accounting and auditing in the public sector.

Accounting principles

Generally accepted accounting principles is the term used to describe the basis on which financial statements are normally prepared. The term generally accepted accounting principles encompasses not only specific rules, practices and procedures relating to particular circumstances, but also broad principles and conventions of general application. Generally accepted accounting principles are established to encourage the consistent and fair disclosure of financial information.

Auditing standards

The work of the Auditor General's Office is carried out in accordance with the auditing standards and recommendations published by the Canadian Institute of Chartered Accountants and its Public Sector Accounting and Auditing Board.

Our contribution

Apart from providing comments on draft accounting and auditing standards, the Auditor General's Office contributes directly to professional accounting organizations:

Peter Valentine, FCA, is a member of the Board of Governors of CCAF. CCAF is a Canadian research and education Foundation dedicated to building knowledge for meaningful accountability and effective governance, management and audit.

Jim Hug, CA, is a member of the Practice Review Committee of the Institute of Chartered Accountants of Alberta (ICAA).

Ken Hoffman, CA, is a member of a COLA and CCAF Research Committee.

Doug Wylie, CMA, is a member of the Practice Review Committee of the Society of Management Accountants of Alberta.

Mary-Jane Dawson, CA, is a member of the Canadian Institute of Chartered Accountants auditing task force on Related Parties and Economic Dependence.

Don Neufeld, CA, is a member of the Registration Committee of the ICAA.

Office of the Auditor General

1996-97 Audited Financial Statements

Management Discussion and Analysis

These financial statements show that 1996-97 was a very successful year in most areas. The cost of operations was again reduced, our opinion on the Province's consolidated financial statements was again issued in June, and our Annual Report was released earlier than ever before. The government responded promptly to the recommendations in our Annual Report, and accepted a very high percentage. These achievements reflect the dedication of staff working with reduced numbers and under increased pressures. Of substantial concern is the professional staff turnover which was 28% during the year. Consequently we ended the year with an all time low staff complement of 106.4 positions.

Actual expenses decreased each year since 1992-93 as follows:

	<u>Actual Expenses</u>	<u>Decrease</u>	
		<u>Amount</u>	<u>Percentage</u>
1992-93	\$12,287,572		
1993-94	11,167,211	\$1,120,361	9.1%
1994-95	9,407,973	1,759,238	15.8%
1995-96	8,857,656	550,317	5.8%
1996-97	8,102,534	755,122	8.5%

As a consequence of these annual reductions, 1996-97 expenses represent a reduction of 34.1% from 1992-93. This reduction is significantly in excess of government guidelines which called for a 20% reduction.

In dollar terms, our cumulative savings over the last four years total \$11,614,914, and exceed reduction guidelines by \$6,085,507.

Major changes in 1996-97

Manpower expenses decreased by about \$610,000 from the previous year. Although the budget provided for 109.5 positions, our actual full-time equivalent positions decreased to an all-time low of 106.4. We had a very high level of staff turnover, and were unable to replace all those who left with qualified professionals. There is a high demand for professional accountants at present which, coupled with years of salary restraint in the public sector, has made it extremely difficult for the Office to attract and retain staff. The implications of high turnover are that significant resources have to be directed towards recruitment and staff training, and the overall

experience level of staff declines. It took an exceptional level of commitment from our staff to properly serve our clients with these restricted resources, and therefore efforts are being made to move towards a larger staff complement.

Note 8 also shows that average salaries have decreased in each of the four manpower categories. There are various reasons for these decreases, including a decrease in the experience level of staff in the professional categories. We need to raise our professional salaries to near market levels if we are to attract and retain qualified staff.

The Office's share of unfunded pension liabilities decreased by \$373,375 (16%) in 1995-96, and by a further \$543,470 (28%) this year. This year's reduction is due to updated actuarial valuations of the Provincial pension plans. These updated valuations reduce total expenses for the year. Although adjustments to the unfunded pension liability will likely continue in the future, amounts of this magnitude are considered unusual. The pension valuation adjustment recognizes, in the current period, the effect of government restructuring of the pension obligation. Government restructuring resulted in reduced plan membership, wage restraints and changes to the investment strategies of the pension plans.

The largest change in supplies and services expenses is a decrease in professional services and fees of about \$145,000, largely because no severance costs were incurred during the current year.

On the revenue side, audit fee revenue increased from \$862,946 last year, to \$1,810,101 this year. Audit fees are charged for professional services to clients who have significant sources of revenue outside of the Provincial government's General Revenue Fund.

Fiscal 1996-97 was our first full year of work on regional health authority audits, and therefore audit fees charged to the authorities increased by approximately \$475,000. The Provincial pension boards have now agreed to pay audit fees which resulted in additional revenue of approximately \$260,000 this year. Nearly one half of this amount represents fees for the audits of the previous fiscal year. Finally, about \$80,000 paid for consulting services relating to specific audits was recovered through audit fee billings.

The following sections provide more specific information about various elements of the audited financial statements.

Salaries, wages and services

Note 8 shows that full-time equivalent positions decreased from 111.5 last year to 106.4 in 1996-97. Despite very active recruitment efforts, we have been unable to maintain staff levels at the 109.5 positions included in the budget.

Senior management in the Office includes the Auditor General, the Deputy and Assistant Auditors General, and the Principals. Positions at these levels decreased by 3.5 following the elimination of two senior positions in the Internal Client Services section, and the Deputy Auditor General's secondment and later transfer to Alberta Treasury Branches.

Supplies and services

Agent fees were approximately the same as in the prior year, but were below budget by approximately \$425,000 mainly because the extent of work in various regional health authorities was less than that anticipated at the time the budget was prepared.

Professional services and fees exceeded the budget by approximately \$110,000. Unbudgeted costs include approximately \$90,000 for consulting services relating to specific audit clients. As noted above, most of these costs were recovered through fee billings. Also, approximately \$60,000 was paid to consultants for staff recruitment, and approximately \$40,000 for consulting services related to various aspects of Office operations. One significant project, which focused on ways to improve our audit efficiency, has helped us to direct our audit efforts at areas of greatest risk thereby reducing the time spent on some audits. In the audit season just passed, we have experienced significant efficiencies in conducting our audit work. The above unbudgeted costs were partially offset by a \$100,000 budget provision for severance costs which was not used.

Payments to private sector accounting firms, which consist of agent fees and amounts for other professional services as described above, increased by approximately \$70,000 from the previous year. As a percentage of the Office's total expenses, these payments increased to 21.2% from 18.7% in the previous year.

Furniture

In 1995 we negotiated a new lease for our Edmonton office space. The new lease resulted in a 25% reduction in space, and a \$400,000 reduction in annual lease costs. The planned reduction of space contemplated a more efficient use of the remaining space. We also needed furniture that would facilitate the use of computers which have only recently been acquired for our audit staff. The old furniture predated the use of computers, and was not designed to meet modern office needs. Both of these requirements have been met with the use of systems furniture.

These requirements resulted in a three-year plan for furniture purchases originally estimated at \$772,650. This budget information was based on very general information regarding components and prices obtained from internal government sources. Detailed planning and tender results since that time have shown that the total cost will be in the vicinity of \$500,000, and therefore the project is being completed in 1997-98, one year sooner than originally anticipated.

The \$500,000 capital cost of furniture in the context of annual lease savings of \$400,000 results in a payback period of about 1.25 years.

Schedule 2 - Schedule of Recommendation Work and Status of Recommendations

The level of recommendations included in our annual report to the Legislative Assembly has remained fairly constant. The government's response to these recommendations, however, has changed. This year 86% of the recommendations in the report were accepted, compared to 68% during the previous year. The high acceptance rate is a measure of our ability to identify opportunities and propose solutions for the improved use of public resources. It is also an indication that the government is serious about making improvements in the use of public resources.

Schedule 3 - Schedule of Other Performance Information

This schedule shows that the Office's average hourly costs remain well below those paid to agents.

The average hourly amounts our agents charge us are less than their normal charge out rates. Amounts to be paid to agents are negotiated during audit planning, and reflect the fact that the agents incur less risk than they do in most other audit engagements. Financial statements are signed by the Auditor General who retains the responsibility and risk associated with the audits. Senior Auditor General staff also approve the audit plans, review the agent's files, and are present at all meetings with management.

The average hourly costs for Auditor General staff decreased by \$5.20 (7.6%) from the previous year. One reason for the decrease is the fact that no severance payments were made this year—which reduced the average hourly costs by \$3.29. The other major reason is that our audit efficiency improved. The average number of chargeable hours per employee increased by about 3.0%, which had the effect of reducing average hourly costs by an additional \$2.06.

Consolidated financial statements were once again finalized in mid June and released later that month. This timing continues to set the standard for the release of government consolidated financial statements in Canada. Schedule 3 also shows that we released our annual report about one month earlier this year.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Office of the Auditor General are the responsibility of management and have been approved by the Auditor General.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances in order to ensure that the financial statements are presented fairly in all material respects.

The Office of the Auditor General maintains control systems designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the relevance and reliability of internal and external reporting, and compliance with authorities. The costs of control are balanced against the benefits, including the risks that the control is designed to manage.

The Management Committee is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Auditor General is ultimately responsible for reviewing and approving the financial statements.

The financial statements have been audited by Kingston Ross Pasnak, Chartered Accountants, on behalf of the members of the Legislative Assembly.

Peter Valentine, FCA
Auditor General
May 15, 1997

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

FINANCIAL STATEMENTS

MARCH 31, 1997

Auditor's Report

Balance Sheet

Statement of Operations

Statement of Changes in Financial Position

Notes to the Financial Statements

Schedule of Output Costs by Ministry

Schedule of Recommendation Work and Status of Recommendations

Schedule of Other Performance Information

AUDITORS' REPORT

To the Chairman, Select Standing Committee on Legislative Offices:

We have audited the balance sheet of the Office of the Auditor General as at March 31, 1997 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Kingston Ross Pasnak
Chartered Accountants

May 15, 1997
Edmonton, Alberta

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

BALANCE SHEET

AS AT MARCH 31, 1997

	<u>1997</u>	<u>1996</u>
<u>ASSETS</u>		
Audit fees receivable	\$ 127,385	\$ 30,808
Other receivables and advances	29,413	4,194
Work in progress (Note 3)	1,390,906	1,036,211
Due from General Revenue Fund	409,213	1,514,232
Capital assets (Note 4)	<u>948,391</u>	<u>602,672</u>
	<u>\$ 2,905,308</u>	<u>\$ 3,188,117</u>
<u>LIABILITIES</u>		
Accounts payable	\$ 451,227	\$ 566,788
Accrued vacation pay	402,099	479,016
Pension liability (Note 5)	1,374,160	1,917,630
Deferred contributions related to capital assets	<u>677,822</u>	<u>224,683</u>
	<u>\$ 2,905,308</u>	<u>\$ 3,188,117</u>

The accompanying notes and schedules
are part of these financial statements.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget	Actual	Actual
	(Note 6)		
Expenses:			
Manpower:			
Salaries, wages and services (Note 8)	\$ 5,198,329	\$ 4,632,655	\$ 5,051,874
Employer contributions (Note 8)	920,573	698,427	768,409
Change in pension liability (Note 5)	-	(543,470)	(373,375)
Professional fees and development	<u>113,780</u>	<u>146,474</u>	<u>97,000</u>
	<u>6,232,682</u>	<u>4,934,086</u>	<u>5,543,908</u>
Supplies and services:			
Agent fees	2,028,850	1,604,283	1,642,003
Professional services and fees	298,500	406,898	552,220
Amortization of capital assets	284,093	274,633	210,816
Office accommodation	225,000	207,845	222,744
Materials and supplies	221,510	194,280	254,178
Travel expenses	188,200	170,876	182,402
Computer services	179,985	146,034	159,653
Telephone and communications	90,500	77,736	9,924
Office equipment rental	33,960	31,566	33,063
Repairs and maintenance	28,000	25,282	27,445
Miscellaneous	<u>23,000</u>	<u>29,015</u>	<u>19,300</u>
	<u>3,601,598</u>	<u>3,168,448</u>	<u>3,313,748</u>
Expenses before work in progress adjustment	<u>\$ 9,834,280</u>	8,102,534	8,857,656
Change in Annual Report work in progress		<u>(99,489)</u>	<u>12,349</u>
Total expenses for the year		8,003,045	8,870,005
Less audit fee revenue		<u>(1,810,101)</u>	<u>(862,946)</u>
Net cost of operations for the year		<u>\$ 6,192,944</u>	<u>\$ 8,007,059</u>
Financed by:			
General Revenue Fund		\$ 6,025,731	\$ 7,904,240
Amortization of deferred contributions related to capital assets		<u>167,213</u>	<u>102,819</u>
		<u>\$ 6,192,944</u>	<u>\$ 8,007,059</u>

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED MARCH 31, 1997

	<u>1997</u>	<u>1996</u>
Operating activities:		
Net cost of operations for the year	\$ (6,192,944)	\$ (8,007,059)
Non-cash transactions:		
Amortization of capital assets	274,633	210,816
Change in pension liability	(543,470)	(373,375)
Changes in working capital balances	<u>(668,969)</u>	<u>(10,043)</u>
	<u>(7,130,750)</u>	<u>(8,179,661)</u>
Investing activity:		
Purchase of capital assets	<u>(620,352)</u>	<u>(196,798)</u>
Financing activities:		
As shown on the statement of operations	6,192,944	8,007,059
Non-cash transaction:		
Amortization of deferred contributions related to capital assets	(167,213)	(102,819)
General Revenue Fund capital contributions	<u>620,352</u>	<u>196,798</u>
	<u>6,646,083</u>	<u>8,101,038</u>
Net change in Due from General Revenue Fund	(1,105,019)	(275,421)
Due from General Revenue Fund at beginning of year	<u>1,514,232</u>	<u>1,789,653</u>
Due from General Revenue Fund at end of year	<u>\$ 409,213</u>	<u>\$ 1,514,232</u>

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1997

Note 1 Authority and Purpose

The Auditor General is an officer of the Legislature who operates under the authority of the Auditor General Act, Chapter A-49, Revised Statutes of Alberta 1980. The net cost of operations of the Office of the Auditor General is borne by the General Revenue Fund of the Province of Alberta. Annual operating and capital budgets are approved by the Select Standing Committee on Legislative Offices.

The Auditor General provides opinions on accountability reports and issues an Annual Report to the Legislative Assembly containing recommendations designed to improve the financial administration of the Province. The 1995-96 Annual Report of the Auditor General was released in the 1997 fiscal year covered by these financial statements.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Audit fees

Audit fee revenue is recognized when billable opinion work is performed. Audit fees are charged to organizations which are funded from sources other than the General Revenue Fund.

(b) Output costs

Schedule 1 reports costs for three types of output. Opinion Projects result in Auditor's Reports on financial statements. Recommendation Projects are initially undertaken to produce recommendations and observations for the Auditor General's Annual Report to the Legislative Assembly. Other Client Services represent various types of assistance provided to audit clients, such as advising task forces, and other special projects which may or may not lead to recommendations for the Annual Report and do not result in audited financial statements.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(c) Work in progress

Work in progress includes the cost of billable opinion projects for which invoices have not been issued at the fiscal year end, together with the cost of work on recommendations for the ensuing Annual Report. The cost of recommendation work is reflected in the statement of operations in the year in which the Annual Report is published. In this way, the cost of the output is matched with the delivery of the output.

(d) Capital assets

Amortization is calculated on a straight-line basis, over the estimated useful lives of the assets, at the following rates:

Computer hardware and software	20%
Office equipment	10%
Furniture	10%
Leasehold improvements	term of the lease

(e) Deferred contributions related to capital assets

Contributions from the General Revenue Fund which have been received and expended for the acquisition of capital assets are deferred and amortized to the statement of operations as the capital assets are depreciated.

(f) Pension expense and liability

Pension costs comprise:

- (i) the cost of pension benefits earned by employees during the year,
- (ii) interest on the Office's share of the unfunded pension liability,
- (iii) amortization of deferred adjustments over the expected average remaining service life of employees which relate to the long-term,
- (iv) adjustments to the pension obligation in the event that there is reasonable assurance that a gain or loss has been realized, and
- (v) the effect of the change in the ratio used to allocate the plan's total unfunded liability to participating entities.

Pension costs which are funded are included in manpower expenses, and those which have not been funded are recorded as a change in pension liability on the statement of operations.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(g) Supplementary performance information

These financial statements contain supplementary performance information designed to assist in evaluating the Office's performance. In management's opinion, this quantifiable information is relevant and reliable.

Note 3 Work in Progress

Work in progress consists of:

	<u>1997</u>	<u>1996</u>
Billable opinion work	\$ 683,653	\$ 428,447
Annual Report recommendation work	<u>707,253</u>	<u>607,764</u>
	<u>\$ 1,390,906</u>	<u>\$ 1,036,211</u>

Note 4 Capital Assets

	<u>1997</u>		<u>1996</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer hardware	\$ 1,170,782	\$ 867,164	\$ 303,618
Computer software	680,132	396,685	283,447
Office equipment	22,366	17,250	5,116
Furniture	257,509	25,173	232,336
Leasehold improvements	<u>140,766</u>	<u>16,892</u>	<u>123,874</u>
	<u>\$ 2,271,555</u>	<u>\$ 1,323,164</u>	<u>\$ 948,391</u>
			<u>\$ 602,672</u>

Note 5 Pension Liability

The Office participates with other employers in the Public Service Pension Plan and the Management Employees Pension Plan. These plans provide pensions for the Office's employees based on years of service and earnings.

The Office had an unfunded pension liability for each plan as at March 31 which was estimated as follows:

	<u>1997</u>	<u>1996</u>
Public Service Pension Plan	\$ 76,584	\$ 151,125
Management Employees Pension Plan	<u>1,297,576</u>	<u>1,766,505</u>
	<u>\$ 1,374,160</u>	<u>\$ 1,917,630</u>

The total unfunded pension liability for each plan as at March 31, 1997 was determined by actuarial valuations as at December 31, 1995 for the Public Service Pension Plan and as at December 31, 1994 for the Management Employees Pension Plan, both extrapolated to March 31, 1997.

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on each Pension Board's best estimate of future events. Each Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses which relate to the long-term are amortized over the expected average remaining service life of the employee group. Gains and losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan which will be funded by employers. The Office's portion of those employers' liabilities was based on the Office's percentage of the total pensionable payroll of all employers in each Plan.

Note 6 Budget

The budget shown on the statement of operations is based on the budgeted expenses approved by the Select Standing Committee on Legislative Offices on December 19, 1995.

Note 7 Lease Commitments

Minimum rental commitments for leased accommodations are as follows:

Fiscal	
1998	\$ 223,479
1999	\$ 229,539
2000	\$ 221,781
2001	\$ 200,211

Note 8 Salaries and Benefits

Salaries and benefits are comprised of the following:

	1997				1996	
	Full-time Equivalents ⁽¹⁾	Salary ⁽²⁾	Benefits and Allowances ⁽³⁾	Total	Full-time Equivalents ⁽¹⁾	Total
Auditor General ⁽⁴⁾	1.0	\$ 110,100	\$ 14,968	\$ 125,068	1.0	\$ 124,826
Deputy Auditor General	0.6	53,564	9,564	63,128	1.0	105,664
Deputy Auditor General ⁽⁵⁾	(0.5)	(41,064)	(6,277)	(47,341)	-	-
Assistant Auditor General, Internal Client Services	1.0	85,569	16,528	102,097	1.0	102,204
Assistant Auditor General ⁽⁶⁾	1.0	85,569	14,508	100,077	1.0	99,384
Assistant Auditor General ⁽⁷⁾	1.0	84,488	23,066	107,554	1.0	100,432
Assistant Auditor General ⁽⁸⁾	1.0	80,881	13,839	94,720	1.0	96,643
Assistant Auditor General ⁽⁹⁾	0.4	31,435	10,882	42,317	-	-
Assistant Auditor General ⁽¹⁰⁾	0.4	30,640	11,516	42,156	-	-
Assistant Auditor General ⁽¹¹⁾	0.4	29,425	5,124	34,549	-	-
Principals (average* 1997 \$75,743, 1996 \$78,093)	19.4	1,198,743	270,680	1,469,423	23.2	1,811,746
Professional audit staff (average* 1997 \$51,916, 1996 \$54,131)	28.3	1,310,414	158,817	1,469,231	25.5	1,380,347
Students and other audit staff (average* 1997 \$32,909, 1996 \$33,629)	37.7	1,068,701	171,972	1,240,673	42.0	1,412,409
Support staff (average* 1997 \$38,391, 1996 \$42,290)	14.7	490,471	73,876	564,347	14.8	625,889
	<u>106.4</u>	<u>\$ 4,618,936</u>	<u>\$ 789,063</u>	<u>5,407,999</u>	<u>111.5</u>	<u>5,859,544</u>
Less decrease in accrued vacation pay				<u>(76,917)</u>		<u>(39,261)</u>
				<u>\$ 5,331,082</u>		<u>\$ 5,820,283</u>

* Average based on total

Note 8 Salaries and Benefits (continued)

- (1) Presented on a weighted average basis.
- (2) Salary includes regular pay and overtime.
- (3) Benefits and allowances includes the Office's share of all employee benefits and contributions including health care, dental coverage, group life insurance, and short and long-term disability plans.

Benefits and allowances also includes any payout of vacation entitlements. With respect to executives, the payouts were as follows:

	<u>1997</u>	<u>1996</u>
Deputy Auditor General	\$ 1,719	\$ 3,781
Assistant Auditor General, Internal Client Services	\$ 2,006	\$ 2,674
Assistant Auditor General ⁽⁷⁾	\$ 8,148	\$ 6,036
Assistant Auditor General ⁽⁸⁾	\$ -	\$ 3,018
Assistant Auditor General ⁽⁹⁾	\$ 5,894	\$ -
Assistant Auditor General ⁽¹⁰⁾	\$ 5,745	\$ -

- (4) Automobile provided to Auditor General, no amount included in benefits.
- (5) The Deputy Auditor General was seconded to Alberta Treasury Branches for 80% of his time during 1996-97. These amounts represent recoveries from Alberta Treasury Branches.
- (6) Major responsibilities - Social Services, Agriculture, Education and universities.
- (7) Major responsibilities - Health, Transportation, Municipal Affairs and colleges.
- (8) Major responsibilities - Treasury and Energy.
- (9) Major responsibilities - Professional Practice and Quality Assurance.
- (10) Major responsibilities - Performance Measurement.
- (11) Major responsibilities - Financial Institutions and Instruments.

Note 9 Comparative Figures

Certain 1996 comparative figures have been reclassified to conform to 1997 presentation.

Note 10 Approval of Financial Statements

These financial statements were approved by the Auditor General.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL
SCHEDULE OF OUTPUT COSTS BY MINISTRY
FOR THE YEAR ENDED MARCH 31, 1997

	1997				Annual Report Recommendations	1996	
	Opinion Projects	Recommendation Projects	Other Client Services	Total		Total	Annual Report Recommendations
Work performed by Office staff:							
Treasury	\$ 1,185,191	\$ 289,572	\$ 38,246	\$ 1,513,009	21	\$ 1,903,739	12
Advanced Education and Career Development	950,323	279,551	18,018	1,247,892	5	1,326,120	9
Health	294,887	488,152	51,863	834,902	11	835,329	9
Family and Social Services	233,465	150,608	16,799	400,872	7	362,687	7
Municipal Affairs	325,069	39,533	11,906	376,508	5	354,317	2
Agriculture, Food and Rural Development	244,566	39,431	18,579	302,576	4	311,692	4
Energy	261,894	9,625	26,093	297,612	1	328,136	3
Environmental Protection	255,732	21,523	3,976	281,231	1	395,641	9
Executive Council	153,906	126,854	3,153	283,913	3	478,574	4
Education	120,147	44,572	24,357	189,076	6	157,940	4
Community Development	148,458	28,040	9,814	186,312	0	162,580	0
Economic Development and Tourism	158,226	10,157	-	168,383	2	179,245	2
Transportation and Utilities	103,203	55,940	3,185	162,328	3	224,984	4
Public Works, Supply and Services	24,499	41,101	2,656	68,256	1	71,844	2
Justice	35,111	1,450	15,117	51,678	0	82,422	2
Labour	15,915	-	3,657	19,572	0	33,690	0
Legislative Assembly	5,088	226	-	5,314	0	17,843	0
Science	4,880	-	-	4,880	0	-	-
Federal and Intergovernmental Affairs	4,448	-	-	4,448	0	1,219	0
	4,525,008	1,626,335	247,419	6,398,762	70	7,228,002	73
Work performed by agents:							
Health	712,779	-	-	712,779	0	467,290	0
Advanced Education and Career Development	452,795	-	-	452,795	0	509,882	1
Economic Development and Tourism	90,943	-	-	90,943	0	180,266	0
Education	81,035	-	-	81,035	0	75,119	0
Labour	76,800	-	-	76,800	0	90,000	0
Treasury	52,500	-	-	52,500	0	47,150	0
Public Works, Supply and Services	51,738	-	-	51,738	0	53,316	0
Community Development	34,677	-	-	34,677	0	48,400	0
Science	19,798	-	-	19,798	0	-	-
Municipal Affairs	19,718	-	-	19,718	0	116,198	0
Agriculture, Food and Rural Development	11,500	-	-	11,500	0	10,500	0
Transportation and Utilities	-	-	-	-	0	-	0
Energy	-	-	-	-	0	23,941	0
Executive Council	-	-	-	-	0	19,941	0
	1,604,283	-	-	1,604,283	0	1,642,003	1
	\$ 6,129,291	\$ 1,626,335	\$ 247,419	\$ 8,003,045	70	\$ 8,870,005	74

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL
SCHEDULE OF RECOMMENDATION WORK AND STATUS OF RECOMMENDATIONS
FOR THE YEAR ENDED MARCH 31, 1997

Focus of Work

	1995-96		1994-95	
	Recommendation		Recommendation	
	Primary	Secondary	Primary	Secondary
Accounting, management control and information systems and processes	17	25	18	21
Improved use of resources	8	5	7	6
Measuring and reporting the cost and effects of outputs	4	4	11	5
Compliance with authorities, and matters of probity	5	1	2	3
Other areas	1	-	-	1
	<u>35</u>	<u>35</u>	<u>38</u>	<u>36</u>

Recommendations Requiring a Formal Government Response

	1995-96		1994-95	
	Annual Report	%	Annual Report	%
New recommendations	25	71%	28	74%
Repeat recommendations	10	29%	10	26%
Total primary recommendations	<u>35</u>	<u>100%</u>	<u>38</u>	<u>100%</u>

Government Response to Recommendations

	November 26, 1996 (date of response)		February 7, 1996 (date of response)	
		%		%
Accepted	30	86%	26	68%
Accepted in principle	3	9%	11	29%
Under review	2	5%	-	-
No longer applicable	-	-	1	3%
Rejected	-	-	-	-
	<u>35</u>	<u>100%</u>	<u>38</u>	<u>100%</u>

Note: The response to a primary recommendation, and any remedial action taken, is reported in the subsequent Annual Report. When the Auditor General considers that insufficient progress has been made in implementing a recommendation, it is repeated. Recommendations not repeated either have been, or are being, implemented satisfactorily. On occasion, a recommendation is neither implemented nor repeated due to changed circumstances.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

SCHEDULE OF OTHER PERFORMANCE INFORMATION

FOR THE YEAR ENDED MARCH 31, 1997

Average Hourly Costs

	<u>Auditor General*</u>		<u>Agents**</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
Overall average	\$ 63.60	\$ 68.80	\$ 82.38	\$ 76.58

* Costs do not include reduction in pension liability.

** Average based on fees paid to agents.

Public Reporting

	<u>1995-96 Reports</u>	<u>1994-95 Reports</u>
Auditor General's Annual Report:		
Date of Report	September 16, 1996	October 16, 1995
Date of public release	September 26, 1996	October 23, 1995
Consolidated financial statements:		
Date of Auditor's Report	June 14, 1996	June 16, 1995
Date of public release	June 24, 1996	June 23, 1995

**Standing Committee on
Legislative Offices**

Reports issued under section 19 of the Auditor General Act are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee on June 16, 1997, the day the Assembly last adjourned were:

Paul Langevin	Chair
Gary Friedel	Deputy Chair
Pam Barrett	
Gary Dickson, QC	
Yvonne Fritz	
Ron Hierath	
Wayne Jaques	
Mary O'Neill	
Howard Sapers	

Audit Committee

Before being tabled, annual reports are made available to an Audit Committee in accordance with section 24 of the Act. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

Janice Rennie, CA	Chair
The Hon. Stockwell Day	
E. Susan Evans, QC	
John Halpin, FCA	
Brian McCook, CA	
Alastair Ross	
Fred Snell, CA	

Public Accounts Committee

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. My annual report, and the audited financial statements in the Public Accounts, are used by the Committee in its examination of the use and control of public resources.

Lance White	Chair
Shiraz Shariff	Deputy Chair
Moe Amery	
Laurie Blakeman	
Denis Ducharme	
Gary Friedel	
Ron Hierath	
Mark Hlady	
LeRoy Johnson	
Rob Lougheed	
Greg Melchin	
Ken Nicol	
Mary O'Neill	
Raj Pannu	
Ron Stevens, QC	
Julius Yankowsky	
Gene Zwozdesky	

Agents

The Auditor General's Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as my agent under section 10 of the Auditor General Act, and their contributions in supplementing the staff resources of the Auditor General's Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1997, were as follows:

Coopers & Lybrand
Deloitte & Touche
Doane Raymond
Ernst & Young
Johnston, Morrison, Hunter & Co.
K.A. Gregory, CA
King & Company
KPMG
Ladell Perry
Price Waterhouse
Roy, Solbak, Walsh & Co.
Young, Parkyn, McNab & Co.

Financial Terminology

1. Surplus, Deficit, Net Debt and Debt

In order to properly understand the Province's financial condition and results, it is necessary to understand the terminology used in the Public Accounts. For example, SURPLUS, DEFICIT, NET DEBT and DEBT are terms with particular meanings in the consolidated financial statements of the Province. Unfortunately, sometimes the terms are given different meanings by those not familiar with them.

The following table presents a summary of the Consolidated Statement of Operations for the fiscal year ended March 31, 1997, and the Consolidated Statement of Financial Position at March 31, 1997.

	<u>In Millions</u>	
	<u>1997</u>	<u>1996</u>
Revenue	\$ 16,651	\$ 15,572
Expense/expenditure (see following comments)	<u>(13,753)</u>	<u>(14,440)</u>
Surplus for the year	2,898	1,132
Net debt at beginning of year	<u>(11,575)</u>	<u>(12,707)</u>
Net debt at end of year	<u>\$ (8,677)</u>	<u>\$ (11,575)</u>
Assets	\$ 19,665	\$ 20,474
Liabilities	<u>(28,342)</u>	<u>(32,049)</u>
Net Debt	<u>\$ (8,677)</u>	<u>\$ (11,575)</u>

Surplus/Deficit

A surplus results when the Province's consolidated revenue exceeds expenditure for a fiscal year.

A deficit results when the Province's consolidated expenditure exceeds revenue for a fiscal year.

Net Debt/Consolidated Net Debt

Annual deficits have exceeded annual surpluses in the past, so the net accumulated annual deficits are reported as consolidated net debt. The terms net debt and consolidated net debt are used interchangeably. Net debt represents the difference between the Province's liabilities and assets (1997 \$8,677 million, 1996 \$12,707 million). The term "accumulated deficit" is sometimes used to describe the net accumulated annual deficits incurred over time, and is synonymous with "net debt."

The net debt arises from the consolidated financial position of about 70 Provincial entities. These include the General Revenue Fund, revolving funds, the Alberta Heritage Savings Trust Fund and other regulated funds, Provincial agencies and Crown-controlled corporations, including those agencies and corporations designated as commercial enterprises. Provincial agencies such as universities, public colleges, technical institutes, school boards, and regional health authorities are not included.

The assets of the Province include cash and marketable securities, receivables, investments, equity in commercial enterprises, loans and advances, and some inventories. Capital assets such as land, buildings and infrastructure are currently excluded.

The liabilities of the Province include accounts payable, unmatured debt, pension obligations and other accrued liabilities.

Debt

The word debt is used by some commentators to describe the total liabilities of the Province (1997 \$28,342 million, 1996 \$32,049 million) without taking into account the fact that the Province has financial assets available to offset against part of the total liabilities.

However, the word debt is also used to describe the unmatured debt including debt of Alberta Municipal Financing Corporation, (1997 \$19,558 million, 1996 \$22,272 million), which is a part of the Province's liabilities. It is therefore important to be alert to the context in which the word debt is being used.

But note that debt, however used, is significantly different from net debt (1997 \$8,677 million, 1996 \$11,575 million) determined by netting the assets and liabilities of the Province.

2. Expense and Expenditure

The most significant of the changes estimated in the 1995-96 consolidated financial statements and now impacting the 1996-97 statements was reporting the expense instead of the expenditure of main functions, such as health, education, social services, etc. The EXPENSE method accounts for resources consumed in the accounting period, whereas the expenditure method accounts for resources acquired, whether consumed or not. For

example, for capital assets, the expense method accounts for annual amortization of the capital cost of an asset over the years of its expected life. On the other hand, using the EXPENDITURE method, the full cost of an asset is reported as expenditure in the year of acquisition. A simple example is a truck purchased for \$20,000 at the beginning of the year which is worth \$14,000 at the end of the year. What is the cost of the truck's usage during the year? Under the expense method of accounting, the annual cost is the \$6,000 difference (called amortization) between the initial cost and the value at the end of the year. Under the expenditure method, the cost is \$20,000.

It should be noted, however, that even though the functional reporting within the Province's Consolidated Statement of Operations was expense based, the annual surplus for 1996-97 was still effectively an expenditure-based result.

This expenditure-based result was achieved in the Statement of Operations as follows. Firstly, the amount of expense of each main function was disclosed (including the annual amortization of capital assets). Then, further down the Statement, a line item described as "net change in capital assets affecting operations" reversed out the annual amortization and substituted the cost of capital assets acquired during the year.

This practice is not as strange as it may seem at first. Since no national government accounting standard requires expense-based reporting, most governments in Canada report their results using the expenditure method. It is claimed that expenditure-based reporting permits comparability across the nation. Also, credit rating agencies and existing and potential lenders are comfortable with that method.

It is very likely that a reader of the statements will find this practice quite difficult to understand. However, it is based on the current view of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants, and is considered by me as a progressive step towards eventual expense accounting.

From a government's business management perspective, there is a current movement in Canada to realize the benefits of focusing on performance results using the expense method to provide better cost measurement of government outputs. As with many other government financial initiatives, Alberta is at the forefront of this initiative by having implemented expense functional reporting for the Province's consolidated financial statements.

Staff

The employees of the Office of the Auditor General as of the date of this report are:

Amrita Kharbanda
Angela Nicoli-Griffiths
Ann Doram
Anne Gerencher
AnnMarie DeProphetis
Annie Shiu
Barbara Clay
Bert Aram, CA
Bill Cruikshank, CMA
Bob Ballachay, CA, CMA
Bob Fitzsimmons
Brian Storey, FCA
Brian Shkrobot
Bruce Laycock, Barrister and Solicitor
Catherine E. Ludwig, CA
Dale Beesley
Dale Borrmann
Dan Balderston
Danielle Recksiedler
David Birkby, CA
David Henderson, CMA
David Schoettle
Dennis Gee, CA
Don Gordon
Don Neufeld, CA
Doug Bewick, CCP, ISP
Douglas McKenzie, CA
Douglas Wylie, CMA
Ellen Vlieg-Paquette, CA
Erwin Hunke, CA
Fiona Syvenky
Gordie Basiga
Gerry Lain, CA
Harold Andrews, CGA, CIA
Harrison Cheng
Hilda Fleming
Ian Sneddon, CA
Ivica Demo
Jackie Di Lullo
Jeremy Weatherhead
Jim Hug, CA
Joe Lewis
John Margitich
Joseph Man
Joy Huffadine, CA
Karen Hunder, CA
Karen Lau
Karen Schmidt
Karin Lu
Kathleen Gora, CA
Kathy Anderson
Kelly Aldridge, CMA
Ken Hoffman, CA
Kerri Tannas
Kirk Wankel

Lawrence Taylor, CA
Levy Castillo
Lilian Rubin
Lori Sajjad, CMA
Lori Caltagirone, CA
Lori Trudgeon
Lynda Engelhardt, CMA
Lynda Turpin
Marcela Gagnon, CA
Marcia Mielke, CMA
Mark Belland
Mark Prystajecky, CA
Mary-Jane Dawson, CA
Merwan Saher, CA
Michael Stratford, CA
Michelle LaPierre
Mimi Chow
Mohamed Khalfan
Mohan Aggarwal, CA
Monica Jeske
Myles Norton
Nick Shandro, CA
Pamela Tom
Patricia Hassink, CA
Patrick Doyle
Paul Harrison
Peggy Stevenson, CA
Pelma Jore
Peter Valentine, FCA
Ram Rajoo, CA
Rene Boisson, CMA
Richard Taylor, CA
Rick Wagner
Robert Hawes, CA
Robert Drotar, CA
Roger Elvina
Ronda White, CA
Stu Orr
Sabi Ghavami
Scott McIntyre, CA
Sharon Kinvig, CMA
Shawna Gulka
Sherry Hassen
Silvie Fortin, CA
Sue Dragicevic
Sushila Pariti
Suzanne Morter
Tammy Bailey
Theresa Politylo
Tim Rothe
Trevor Mills
Trevor Shaw, CA, CMC
Valerie Holmgren
Vivek Dharap, CA
William Poon

The summary which follows has been prepared to show the implementation status with respect to the Auditor General's 1995-96 numbered recommendations. The government formally responded to these recommendations in November 1996. Our follow-up of each of the recommendations is dealt with in section 2 of this annual report as referenced.

1995-96 Recommendation	Government Response	Implementation Status
1 It is recommended that the Executive Council improve the accountability framework for grant expenditures made from the Lottery Fund.	Accepted. The accountability framework for grant expenditures made from the Lottery Fund will be reviewed.	Satisfactory. See page 82.
2 It is recommended that the Office of the Chief Information Officer evaluate ministerial plans and monitor progress towards ensuring that information technology is year 2000 Compliant.	Accepted. The Chief Information Officer chairs the Council of Chief Information Officers which has representatives from each Ministry. The Council will work with the Ministry of Public Works, Supply and Services, which has been identified as having lead responsibility for developing and implementing a government plan to ensure that information technology is year 2000 Compliant.	Satisfactory. See page 24.
3 It is recommended that the Deputy Ministers' Steering Committee restructure the PeopleSoft Project with the objective of enhancing coordination and integration.	Accepted. A Deputy Minister has been seconded on a full time basis to establish and oversee an appropriate project management structure for the project. A new structure has been implemented to improve coordination and integration.	Resolved. See page 23.

Status Report of Recommendations

	1995-96 Recommendation	Government Response	Implementation Status
4	It is recommended that the Department of Advanced Education and Career Development work with the post-secondary education sector to facilitate a consistent, reliable and well-understood application of tuition fee policy across the sector.	Accepted. The Ministry has made considerable strides in key performance indicator reporting that can also be used for determining net operating expenditure for tuition fee policy reporting. Beginning December 1, 1996, all post-secondary education institutions will be required to report all of their key performance indicator and financial information, including information on tuition fee policy. The Ministry will continue to work with post-secondary education institutions and refine the definitions used for both key performance indicator and tuition fee policy reporting to ensure they are consistent, reliable and well understood.	Satisfactory. See page 51.
5	It is recommended that Grant MacEwan Community College improve the communication of planning and reporting information between the academic divisions and the Board of Governors and senior management.	Accepted. The College will improve the reporting process among academic departments, including integration of performance information and better costing information.	Satisfactory. See page 58.
6	It is recommended that the Northern Alberta Institute of Technology include the setting of measurable expectations as part of the planning for Extension Services activities, so that achievements can be properly assessed.	Accepted. The Institute will improve the costing and reporting process for Extension Services activities to ensure effective resource allocation.	Satisfactory. See page 59.

1995-96 Recommendation	Government Response	Implementation Status
7 It is recommended that the Agriculture Financial Services Corporation obtain legislative amendments before implementing changes in its operating policies that are otherwise inconsistent with legislation.	Accepted. The Corporation has revised its processes to ensure that future operating policy changes are consistent with legislation.	Resolved. See page 67.
8 Not used		
9 It is recommended that the Alberta Heritage Foundation for Medical Research request from the Lieutenant Governor in Council a retroactive exemption from section 80.1 of the Financial Administration Act respecting the incorporation of its subsidiary, the Alberta Foundation for Health Research, or alternatively, discontinue and wind-up the operations of the subsidiary.	Accepted. An Order-in-Council to retroactively exempt the Alberta Foundation for Health Research from section 80.1 of the Financial Administration Act respecting the incorporation of the Alberta Foundation for Health has been obtained (pending Cabinet approval on November 19).	Resolved.
10 It is recommended that the Department of Education require school boards to include performance information on the various instructional programs in their annual education results reports, and to include information in their financial statements that links costs with performance.	The recommendation is under review. Other factors such as commitment of staff, content covered, quality of teaching, and parental support also significantly affect results. The Ministry has agreed to work with the Auditor General's office to address this issue during the next year.	Satisfactory. See page 88.

Status Report of Recommendations

1995-96 Recommendation	Government Response	Implementation Status
11 It is recommended that arrangements be made and responsibility be assigned for monitoring compliance by BOVAR with its commitments, and generally ensuring that the Province's interests are protected, as they relate to the Agreement to dispose of the interest in the Swan Hills Joint Venture.	Accepted. Initially the Alberta Special Waste Management Corporation will take the lead in monitoring BOVAR's performance under the various agreements. The Ministry will provide resources to assist with the work. The Ministry will assume the entire role upon the repeal of the Corporation's Act.	Satisfactory. See page 102.
12 It is recommended that the Department of Family and Social Services review the status of clients whose earnings are being supplemented or who are receiving support while they are seeking employment or receiving training, to determine whether appropriate assistance is being provided to help them become financially independent.	Accepted. Staff resources allocated to these clients will be reviewed to help the clients become financially independent.	Satisfactory. See page 113.

1995-96 Recommendation	Government Response	Implementation Status
13 It is recommended that the Metis Settlements Transition Commissioner encourage Metis settlement councils to develop business plans setting out longer-term operating strategies and financial forecasts, thereby enabling the Commissioner, settlement councils and settlement members to guide each settlement's progress towards self-sufficiency as envisaged by the Metis Settlements Accord Implementation Act.	Accepted. The Metis Settlements General Council, with assistance from the Metis Settlements Transition Commission and Aboriginal Affairs, is currently developing the business plan for the ten year post-transition period commencing April 1997.	Satisfactory. See page 114.
14 It is recommended that the Department of Health, with the participation of the Regional Health Authorities, review the progress made by the authorities in establishing effective governance with a view to promoting best practice.	Accepted. The Ministry agrees that it is important for Regional Health Authorities to have an effective governance model in place. A review of the progress made by Authorities is expected to be completed in the 1997-2000 business planning cycle.	Satisfactory. See page 123.
15 It is recommended that the Department of Health implement a framework that allows health authorities to provide health services that take advantage of the best practices for providing quality care.	Accepted. The Ministry supports the development of clinical practice guidelines where appropriate and is incorporating this initiative into the three year business plan. Work may continue beyond the 1997-2000 business planning cycle.	Satisfactory. See page 126.

Status Report of Recommendations

1995-96 Recommendation	Government Response	Implementation Status
16 It is recommended that the Department of Health develop a reporting framework that provides the information needed by the public, MLAs, board members, management and operating staff for accountability, governance and operating purposes.	Accepted. An accountability framework is being developed and is expected to be completed in the 1997-2000 business planning cycle.	Satisfactory. See page 120.
17 It is recommended that the Department of Health in collaboration with health authorities establish a process that will guide the development of information systems capable of providing the information necessary to assess the effectiveness of publicly funded health services.	Accepted. The Ministry is taking the lead role in setting health information standards with the first phase due for completion by the end of 1996. Subsequent phases are expected to be completed in the 1997-2000 business planning cycle.	Satisfactory. See page 124.
18 It is recommended that the Department of Health resolve issues related to financial reporting by health authorities and communicate its requirements in a timely manner.	Accepted. The Ministry will continue to work with health authorities to identify and implement appropriate financial reporting.	Resolved. See page 147.

1995-96 Recommendation	Government Response	Implementation Status
19 It is recommended that the Department of Health ensure that its direction to health authorities on reporting capital contributions is consistent with responsibility for funding capital asset replacement.	Accepted. The Ministry will reconsider its requirements for reporting contributions which are restricted to capital purposes in consultation with Regional Health Authorities and the Ministry of Public Works, Supply and Services. This is expected to be completed within the 1996-1999 business planning cycle.	Resolved. See page 146.
20 It is recommended that the Department of Health foster the implementation of physician funding systems that focus on enhancing the health of the population.	Accepted. Alternative physician funding systems that focus on enhancing the health of the population will continue to be explored by the Ministry in consultation with physicians. Work may continue throughout the 1997-2000 business planning cycle.	Satisfactory. See page 128.
21 It is recommended that the Department of Health assess whether the fee for service rates set in the Schedule of Medical Benefits represent reasonable compensation for medical services provided within the current medical practice environment.	Accepted. Although the Ministry does not have the legal ability to alter fee for service rates set out in the Schedule of Medical Benefits, it will continue to exercise influence to the extent possible, so that rates paid represent reasonable compensation for medical services provided.	Satisfactory. See page 128.

Status Report of Recommendations

1995-96 Recommendation	Government Response	Implementation Status
22 It is recommended that the Department of Health and the Regional Health Authorities work toward ensuring optimum use of significant public funds provided to community, voluntary and private organizations for the purpose of delivering regional health services.	Accepted. The Ministry continues to assist Regional Health Authorities in developing service contracts with community, voluntary and private organizations with a view to ensuring optimum use of funds available for provision of health services to Albertans.	Satisfactory. See page 120.
23 It is recommended that the Ministry of Municipal Affairs improve the monitoring of management bodies and their setting of expectations in business plans to allow comparison of actual results to stated expectations.	Accepted. The Ministry will communicate its business plan objectives to management bodies and ensure that they are followed. Delays in the receipt of business plans and operational reports from management bodies will be followed up. An operational review program is in place and on schedule. Sufficient information through the budgets, financial statements, vacancy reports and tenant profile information is received for proper management of the housing portfolio.	Satisfactory. See page 175.
24 It is recommended that the Ministry of Municipal Affairs determine the total costs per unit of its social housing properties to enable it to manage its costs.	Accepted. Total program costs for each type of social housing will be tabulated, including amortization and administration expenditures. Total costs per unit will be determined in 1996-97.	Resolved. See page 177.

1995-96 Recommendation	Government Response	Implementation Status
25 It is recommended that the Department of Transportation and Utilities ensure that its method of selecting consulting engineers for major construction projects is cost-effective.	The recommendation is accepted in principle. The method to select consulting engineers for major construction projects will be reviewed on an ongoing basis for cost effectiveness and for improvement based on experience gained. The current selection method was established following lengthy and detailed negotiations with the Consulting Engineers of Alberta. It ensures that all qualified firms, including smaller ones, have an opportunity to submit proposals. The Ministry believes the current selection method ensures qualified consultants are selected at the least cost.	Resolved. See page 192.
26 It is recommended that the Treasury Department record all revenue in the consolidated and General Revenue Fund financial statements on the accrual basis.	Accepted. The recommendation will be implemented within 1997-2000 business planning cycle.	Progress unsatisfactory. See page 207.
27 It is recommended that valuation adjustments be allocated to program costs in the consolidated and General Revenue Fund financial statements.	The recommendation is accepted in principle. The valuation adjustments related to student loans are reflected in program costs. The allocation of the remaining valuation adjustments will continue to be reviewed and implemented when practical.	Progress unsatisfactory. See page 208.

Status Report of Recommendations

	1995-96 Recommendation	Government Response	Implementation Status
28	It is recommended that the financial position, results and cash flow of the Alberta Municipal Financing Corporation continue to be included in the consolidated financial statements on a line-by-line basis.	The recommendation is under review. The Provincial Treasurer will be consulting with the Provincial Audit Committee on this issue before the 1997-98 budget is presented.	Resolved. See page 209.
29	It is recommended that the Treasury Department reassess the need for revolving funds in order to reduce costs and simplify administration. In the event that revolving funds continue, it is recommended that their financial statements include all material costs of operations.	Accepted. Revolving funds provide program managers with needed flexibility in the delivery of certain programs. More cost efficient and simpler alternatives to separate revolving funds will be considered within the 1997-2000 business planning cycle.	Satisfactory. See page 214.
30	It is recommended that the Treasury Department obtain legislative authority before transferring program surpluses and deficits among revolving funds and the General Revenue Fund.	Accepted. If revolving funds continue after the above review, authority for future transfers will be obtained.	Satisfactory. See page 214.
31	It is recommended that Alberta Pensions Administration Corporation assist the Public Sector Pension boards to improve the information communicated to employers.	Accepted. In consultation with the Auditor General's office, improved communication to employers is planned for this year.	Resolved. See page 215.

1995-96 Recommendation	Government Response	Implementation Status
32 It is recommended that the three-year business plan instructions issued by the Treasury Department require appropriate disclosure of the major assumptions, and in particular the downside risk to ministry plans, when proposed major programs or capital expenditures are dependent on future events.	The recommendation is accepted in principle. In future years' business plan instructions, Ministries will be asked to provide information about major assumptions to Treasury Board.	Resolved. See page 215.
33 It is recommended that the Treasury Department extend the independent review and approval of investment risk management policies to all investment funds.	Accepted. As noted by the Auditor General, there is an independent review and approval of investment risk policies for the majority of funds managed. Methods of providing for an independent review for the remaining funds will be considered within the next year.	Resolved. See page 217.
34 It is recommended that the Treasury Department establish a dedicated accounting function to increase the efficiency and effectiveness of reporting and to better meet the needs of the investment management division.	Accepted. A method to provide an efficient and effective accounting function will be addressed in the current reorganization of finance and treasury functions in the Ministry.	Resolved. See page 217.
35 It is recommended that Alberta Treasury Branches adopt a more business-like and profit-oriented approach when approving and monitoring large commercial loans.	Accepted.	Satisfactory. See page 228.

Status Report of Recommendations

	1995-96 Recommendation	Government Response	Implementation Status
36	It is recommended that Alberta Treasury Branches automate, and make more reliable and comprehensive, the reporting of information on connected accounts, classified advances, letters of guarantee, and letters of credit.	Accepted.	Satisfactory. See page 228.

AUDITOR GENERAL ACT

CHAPTER A-49

Table of Contents

Definitions	1
Meaning of other words	2
Appointment of Auditor General	3
Resignation of Auditor General	4
Suspension or removal from office	5
Vacancy in office	6
Salary and benefits	7
Acting Auditor General	8
Office of the Auditor General	19
Engagement of services on fee basis	10
Delegation of power or duty	11
Auditor General as auditor	12
Financing of operations	13
Auditor General may charge fees	14
Access to information	15
Right to information	16
Reliance on auditor	16.1
Special duties of Auditor General	17
Annual report on financial statements	18
Annual report of Auditor General	19
Special reports	20
Establishment of Audit Committee	21
Meetings of Audit Committee	22
Information re scope and results of audit	23
Availability of reports	24
When report not required	25
Supplementary information	26
Audit working papers	27
Report after examination	28
Advice on organization, systems, etc.	29
Annual audit	30
Records Management	31

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows

Definitions

1 In this Act,

- (a) "Auditor General" means the Auditor General of Alberta;
- (b) repealed 1993 c19 s17;
- (c) "department" means a department as defined in section 1 of the *Financial Administration Act* and includes
 - (i) the Legislative Assembly Office,
 - (ii) the Ombudsman and the staff of the Office of the Ombudsman,

- (iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer,
- (iv) the Ethics Commissioner and the staff of the Office of the Ethics Commissioner, and
- (v) the Information and Privacy Commissioner and the staff of the Office of the Information and Privacy Commissioner;
- (d) “employee of the Office of the Auditor General” includes a person engaged on a fee basis by the Auditor General;
- (e) “public money” means public money as defined in the *Financial Administration Act* and includes money forming part of the Treasury Branches Deposits Fund;
- (f) “regulated fund” means a regulated fund as defined in the *Financial Administration Act* and includes the Treasury Branches Deposits Fund;
- (g) “Select Standing Committee” means the Select Standing Committee on Legislative Offices;
- (h) “voting share” means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57;1991 cC-22.1 s49;
1993 c19 s17;1994 cF-18.5 s93

Meaning of
other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of
Auditor General

3(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of
Auditor General

4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or removal from office	5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office. RSA 1980 cA-49 s5
Vacancy in office	6(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session. (2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General. RSA 1980 cA-49 s6
Salary and benefits	7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year. (2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers. RSA 1980 cA-49 s7
Acting Auditor General	8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General. (2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1). (3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General. RSA 1980 cA-49 s8
Office of the Auditor General	9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the <i>Public Service Act</i> as are necessary to assist the Auditor General in carrying out his functions under this or any other Act. (2) On the recommendations of the Auditor General, the Select Standing Committee may order that (a) any regulation, order or directive made under the <i>Financial Administration Act</i>, or

- (b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) *The Regulations Act* does not apply to orders made under subsection (2).

(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9; 1983 cL-10.1 s57

Engagement of services on fee basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

- (a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or
- (b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General as auditor

12 The Auditor General

- (a) is the auditor of every ministry, department, regulated fund, revolving fund and Provincial agency, and
- (b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12; 1995 cG-5.5 s17

13(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

- (a) reports that the Auditor General has certified that in the public interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and
- (b) reports that either
 - (i) there is no supply vote under which an expenditure with respect to that matter may be made, or
 - (ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act*, added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General may charge fees	14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee. RSA 1980 cA-49 s14
Access to information	15(1) The Auditor General is entitled to access at all reasonable times to (a) the records of a department, fund administrator or Provincial agency, and (b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency, for any purpose related to the exercise or performance of his powers and duties under this or any other Act. (2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explanations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act. (3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed. (4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained. RSA 1980 cA-49 s15
Right to information	16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall (a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization, (b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

- (c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

RSA 1980 cA-49 s16

Reliance on auditor

16.1(1) In this section, “regional authority” means a board under the School Act or a regional health authority, subsidiary health corporation, community health council or provincial health board under the Regional Health Authorities Act.

(2) If the Auditor General is not the auditor of a regional authority, the person appointed as auditor

- (a) must give the Auditor General, as soon as practicable after completing the audit of the regional authority, a copy of the person’s findings and recommendations and a copy of the audited financial statements and all other audited information respecting the regional authority,
- (b) may conduct such additional work at the direction and expense of the Auditor General as the Auditor General considers necessary, and
- (c) must co-operate with the Auditor General when the Auditor General performs work for a report to the Legislative Assembly under section 19.

(3) A regional authority must give a person appointed as auditor of the regional authority any information the person requires for the purposes of subsection (2).

(4) If the Auditor General is not the auditor of a regional authority, the Auditor General may rely on the report and work of the person appointed as auditor.

1995 cG-5.5 s17

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report
on financial
statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

- (a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles,
- (b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and
- (c) include any other comments related to his audit of the financial statements that he considers appropriate.

RSA 1980 cA-49 s18;1995 c23 s3

Annual report of
Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

- (a) on the work of his office, and
 - (b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.
- (2)** A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that
- (a) collections of public money
 - (i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,
 - (ii) have not been fully accounted for, or
 - (iii) have not been properly reflected in the accounts,
 - (b) disbursements of public money
 - (i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,
 - (ii) have not complied with regulations, directives or orders applicable to those disbursements, or

- (iii) have not been properly reflected in the accounts,
- (c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,
- (d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or
- (e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

- (a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on
 - (i) the accounting policies employed, and
 - (ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,
- (b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and
- (c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(3.1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly on the results of the examinations of the regional authorities referred to in section 16.1.

(4) A report under this section shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

RS cA-49 s19; 1995 cG5.5 s17; 1996 cA-27.01 s22

Special reports	20(1) The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19. (2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting. 1977 c56 s20
Establishment of Audit Committee	21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council. (2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman. (3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee. 1977 c56 s21
Meetings of Audit Committee	22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings. (2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee. 1977 c56 s22
Information re scope and results of audit	23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations. 1977 c56 s23
Availability of reports	24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee. 1977 c56 s24
When report not required	25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant. 1977 c56 s25
Supplementary information	26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General. 1977 c56 s26

Audit working papers	27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly. 1977 c56 s27
Report after examination	28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties. 1977 c56 s28
Advice on organization, systems, etc.	29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body. 1977 c56 s29
Annual audit	30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General. (2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department. (3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee. (4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts. 1977 c56 s30
Records Management	31 On the recommendation of the Auditor General, the Select Standing Committee may make an order (a) respecting the management of records in the custody or under the control of the Office of the Auditor General, including their creation, handling, control, organization, retention, maintenance, security, preservation, disposition, alienation and destruction and their transfer to the Provincial Archives of Alberta; (b) establishing or governing the establishment of programs for any matter referred to in clause (a); (c) defining and classifying records; (d) respecting the records or classes of records to which the order or any provision of it applies. SA 1995 c34 s1

INDEX OF ENTITIES

473654 Alberta Ltd. 229

A

Agriculture Financial Services Corporation 63
 Agriculture, Food and Rural Development Revolving Fund 67
 Alberta Agricultural Research Institute.....70
 Alberta Alcohol and Drug Abuse Commission.....74
 Alberta Cancer Board 152
 Alberta Cancer Foundation 152
 Alberta College of Art and Design.....52
 Alberta Dairy Control Board.....70
 Alberta Energy and Utilities Board 95
 Alberta Foundation for the Arts 75
 Alberta Gaming and Liquor Commission 82
 Alberta Heritage Foundation for Medical Research.....82
 Alberta Heritage Foundation for Medical Research Endowment Fund.....229
 Alberta Heritage Savings Trust Fund 229
 Alberta Heritage Scholarship Fund 229
 Alberta Hospital Edmonton Foundation.....231
 Alberta Insurance Council 229
 Alberta Motion Picture Development Corporation ..82
 Alberta Multiculturalism Fund 75
 Alberta Municipal Financing Corporation 229
 Alberta Oil Sands Technology and Research Authority.....94
 Alberta Opportunity Company 82
 Alberta Pensions Administration Corporation 229
 Alberta Petroleum Marketing Commission.....95
 Alberta Research Council.....185
 Alberta School Foundation Fund 89
 Alberta Science and Research Authority.....184
 Alberta Securities Commission 229
 Alberta Social Housing Corporation 178
 Alberta Special Waste Management Corporation ..102
 Alberta Sport, Recreation, Parks and Wildlife Foundation 75
 Alberta Tourism Partnership Corporation 78
 Alberta Treasury Branches 220
 ARCA Investments Inc.....229
 Athabasca University.....54
 Athabasca University Foundation 54

B

Banff Centre Foundation 57

C

Calgary Regional Health Authority.....152
 Capital Health Authority 150
 Chinook Regional Health Authority.....152
 CKUA Radio Foundation.....168

Community Development Revolving Fund.....75
 Consolidated Cash Investment Trust Fund.....229
 Consolidated Financial Statements of the Province.....204
 Credit Union Deposit Guarantee Corporation.....229
 Crown-Controlled Organizations 210

D

David Thompson Regional Health Authority.....151
 Department of Advanced Education and Career Development.....39
 Department of Community Development 73
 Department of Economic Development 78
 Department of Education.....84
 Department of Energy 92
 Department of Environmental Protection.....98
 Department of Health 119
 Department of Justice 154
 Department of Labour 156
 Department of Public Works, Supply and Services.....182
 Department of Transportation and Utilities.....188
 Department of Treasury.....210

E

East Central Regional Health Authority.....152
 Economic Development and Tourism Revolving Fund 82
 Education Revolving Fund.....90
 Environmental Protection Enhancement Fund.....101
 Environmental Protection Revolving Fund.....103

F

Fairview College 52
 Fairview College Foundation 52

G

Gas Alberta Operating Fund.....193
 General Revenue Fund 209
 Grande Prairie Regional College.....52
 Grande Prairie Regional College Foundation 52
 Grant MacEwan Community College 58

H

Headwaters Health Authority 152
 Historic Resources Fund 75

I

Improvement Districts' Trust Account.....180

J

Joint Standards Directorate 162

INDEX OF ENTITIES

K	
Kananaskis Improvement District	103
Keyano College	52
L	
Lakeland College	52
Legislative Assembly Office	164
Lethbridge Community College	52
Local Authorities Pension Plan	229
Lottery Fund	81
M	
Management Employees Pension Plan	229
Medicine Hat College	52
Medicine Hat College Foundation	52
Metis Settlements Transition Commission	114
Metis Settlements Transition Fund	114
Ministry of Community Development	72
Mount Royal College	52
Mount Royal College Day-Care Society	52
Mount Royal College Foundation	52
N	
N.A. Properties (1994) Ltd.	229
Natural Resources Conservation Board	103
NFI Finance, Inc.	229
Non-profit Private Colleges Foundation	51
Northern Alberta Institute of Technology	59
Northern Lights Regional Health Authority	152
Northland School Division No. 61	90
O	
Olds College	52
Olds College Foundation	52
Olympic Oval/Anneau Olympique	57
Orion Properties Ltd.	229
P	
Peace Regional Health Authority	152
Personnel Administration Office Revolving Fund ...	36
Provincial Mental Health Advisory Board	152
Provincial Mental Health Board	152
Public Colleges Foundation of Alberta	51
Public Service Management (Closed Membership) Pension Plan	229
Public Service Pension Plan	229
Public Works, Supply and Services Revolving Fund	
182	
R	
Red Deer College	52
Regional Health Authorities and Provincial Health Boards	146
Regional Health Authority 5	152
S	
SC Financial Ltd.	229
Section 12(b) Audits	230
Southern Alberta Institute of Technology	52
Special Areas Trust Account	180
Special Forces Pension Plan	229
T	
Teachers' Retirement Fund	90
The Alberta Government Telephones Commission	229
The Alberta Historical Resources Foundation	75
The Arctic Institute of North America	57
The Banff Centre for Continuing Education	57
The Government House Foundation	75
The Laser Institute	54
The Trustees of the Academic Staff Benefits Plans of The University of Alberta	230
The University of Alberta	54
The University of Calgary	57
The University of Lethbridge	57
The Wild Rose Foundation	75
The Workers' Compensation Board	159
Tire Recycling Management Board	103
Transportation Revolving Fund	193
Treasury Revolving Fund	229
U	
Universities Academic Pension Plan	229
University of Alberta 1991 Foundation	54
University of Calgary Foundation	57
University of Lethbridge Foundation	57
University Technologies International Inc.	57
W	
Western Irrigation District	230
WestView Regional Health Authority	152

